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**EXHIBIT A**

Investigation: 19-09-016  
(U 39 M)  
Date: January 31, 2020  
Witness(es): Various

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**PACIFIC GAS AND ELECTRIC COMPANY**  
**PLAN OF REORGANIZATION OII 2019**  
**PREPARED TESTIMONY**  
**VOLUME 1**

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PACIFIC GAS AND ELECTRIC COMPANY  
PLAN OF REORGANIZATION OII 2019  
PREPARED TESTIMONY

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**PACIFIC GAS AND ELECTRIC COMPANY**  
**CHAPTER 1**  
**INTRODUCTION TO TESTIMONY**  
**(SCOPING MEMO – ALL SECTIONS)**

PACIFIC GAS AND ELECTRIC COMPANY  
CHAPTER 1  
INTRODUCTION TO TESTIMONY  
(SCOPING MEMO – ALL SECTIONS)

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**PACIFIC GAS AND ELECTRIC COMPANY**  
**CHAPTER 1**  
**INTRODUCTION TO TESTIMONY**  
**(SCOPING MEMO – ALL SECTIONS)**

**A. Executive Summary**

This Chapter 1 provides an introduction to Pacific Gas and Electric Company's (PG&E, the Company or the Utility) Plan of Reorganization (PG&E Plan or Plan) and its goals. The important goals accomplished by the PG&E's Plan include:

1. Fair and expeditious compensation to wildfire victims;
2. Accelerated wildfire risk reduction, while keeping customer rates affordable; and
3. A governance system that emphasizes safe and reliable service, and will keep PG&E financially and operationally healthy for the long term.

As described in the accompanying chapters, PG&E is in the process of making, and is dedicated to, transformative change to ensure that we prioritize safety and our customers' welfare, and PG&E commits to continue these efforts as it emerges from Chapter 11 under its Plan. PG&E's Plan complies with Assembly Bill (AB) 1054, addresses the concerns raised by California's Governor, and should be approved by the California Public Utilities Commission (CPUC or Commission).

PG&E needs to be a changed company. Through substantial reforms already in progress and continued hard work, PG&E is rapidly evolving. The company that emerges from bankruptcy will be a changed company with an enhanced focus on safety, improvement, customer welfare and operational excellence.

We need to improve the way we guard against catastrophic wildfires. So we've changed the way we're organized to prioritize and integrate wildfire mitigation. We've implemented aggressive measures to reduce the risk of wildfires, including through enhanced vegetation management, increased safety inspections, system hardening and, as a transitional strategy, the PSPS program. We understand that our implementation of PSPS was unacceptable. So we've improved our ability to provide potential outage information to

1 customers, changed the way we communicate and coordinate with OES, CalFire  
2 and impacted local communities, and we are aggressively taking action to  
3 reduce the number of impacted customers and duration of PSPS events. We're  
4 installing sectionalizing devices that can help limit the geographical impact of  
5 de-energization and accelerate restoration. We're upgrading our ability to  
6 enable remote operation of line reclosers in high fire threat areas. We're  
7 installing hundreds of new weather stations and cameras to more accurately  
8 pinpoint specific regions forecast to experience PSPS conditions.

9 We need to improve the way we run our operations, from asset condition to  
10 operational planning and decision making. So we are improving our asset  
11 management, data collection and integration and record keeping. We will be an  
12 industry leader in the prudent management of our assets and will build on the  
13 success of Gas Operations in obtaining ISO 55000 Certification by having the  
14 electric and power generation lines of business achieve equivalent certifications  
15 as well.

16 We need to improve our understanding of our risks, our identification and  
17 monitoring of the main risk drivers, and improve our oversight and execution of  
18 our strategies to mitigate these risks. We understand that climate change will  
19 bring new challenges to our operations, not even imagined today. So we are  
20 expanding our Enterprise and Risk Management program, working closely in  
21 these efforts with the Commission.

22 We need to change quickly and efficiently. So we're enhancing our  
23 management of change, especially when it comes to safety and risk. We have a  
24 new management team in place and we are empowering leadership in the areas  
25 of risk, safety, compliance and customer care. We are adding a new Chief Risk  
26 Officer and Chief Safety Officer. We're also embracing entirely new governance  
27 actions, including independent oversight through an Independent Safety Advisor  
28 and Independent Safety Oversight Committee.

29 We moved too far from our customers. We recognize the cornerstone of  
30 future success requires focusing on protecting and advancing customer and  
31 workforce welfare and improving overall the service our customers receive. So  
32 we are increasing reliability, including reducing the number of customers  
33 affected by and the frequency and duration of PSPS events. We're submitting a  
34 plan to create local operating regions that place leadership and operations

1 closer to our customers. Each region will be led by an officer of the Utility who  
2 will be charged with understanding and addressing local customer service,  
3 reliability and safety needs, and each region will have its own safety officer  
4 focused on public and workforce safety.

5 Our blueprint for emerging from bankruptcy changed for the better is  
6 described in the accompanying chapters of testimony, particularly Chapter 5 and  
7 Chapter 6.

## 8 **B. Introduction**

9 My name is William D. Johnson. I joined PG&E Corporation in May 2019,  
10 when I became its Chief Executive Officer (CEO) and President. I am a member  
11 of the PG&E Corporation Board as well as the Board of its utility subsidiary,  
12 Pacific Gas and Electric Company (the "Utility," and collectively with PG&E  
13 Corporation, "PG&E").

14 Prior to joining PG&E, I served as President and CEO of the Tennessee  
15 Valley Authority (TVA) from January 2013 to May 2019. Prior to my tenure at  
16 TVA, I held executive positions at Progress Energy during 1995-2012, including  
17 serving as its President and CEO during 2007-2012.

18 During my 6-year tenure at TVA, the nation's largest public utility, the  
19 organization achieved the best safety records in its 85-year history, and TVA  
20 was a perennial top decile safety performer in the utility industry. In that same  
21 period, we retired more than half of TVA's coal generation, resulting in a  
22 reduction of TVA's carbon omissions by about 50 percent over the last decade.  
23 I was responsible for leading TVA to generate more than 50 percent of its  
24 energy from non-greenhouse gas emitting sources. I also oversaw TVA's  
25 expansion into utility scale solar in recent years, with the addition of  
26 approximately 1,000 megawatts (MW), and pursued the modernization of its  
27 hydro assets to increase the overall amount of renewable resources. TVA's  
28 renewable portfolio includes almost 2,400 MWs of wind and solar and  
29 5,800 MWs of hydro capacity.

30 I have joined PG&E at a time of extraordinary challenges, recognizing that  
31 PG&E needs to compensate wildfire victims as quickly as possible, and that it  
32 requires fundamental change and sustained performance over time to regain the  
33 public trust. We have now entered into settlements with all major groups of  
34 wildfire victims and have received Bankruptcy Court approval of two of those

1 agreements. And, as described in the accompanying testimony, PG&E is in the  
2 process of implementing structural changes across the Company to improve  
3 safety and operational performance for the long term. These improvements lay  
4 the groundwork for a reorganized PG&E that is positioned to lead California's  
5 clean energy future while providing safe, reliable, and affordable energy to  
6 customers every day. I look forward to leading PG&E as it navigates its  
7 Chapter 11 proceedings, achieves confirmation of its Plan, and continues the  
8 enterprise-wide changes that are described further in the accompanying  
9 testimony.

### 10 **C. Backdrop to PG&E's Plan of Reorganization**

11 The Utility is a regulated public utility that provides electricity, natural gas,  
12 and related services, to approximately 16 million customers in northern  
13 and central California. The Utility owns approximately 18,000 circuit miles of  
14 interconnected electric transmission lines, and approximately 107,000 circuit  
15 miles of electric distribution lines, and it delivered almost 80,000 gigawatt-hours  
16 (GWh) of electricity to customers in 2018. The Utility's bundled natural gas  
17 sales in 2018 exceeded 208,000 Million Cubic Feet.

18 PG&E employs approximately 24,000 regular employees, over 99 percent of  
19 them at the Utility. Approximately 15,000 PG&E employees are covered by  
20 collective bargaining agreements with local chapters of three labor unions:  
21 (i) the International Brotherhood of Electrical Workers (IBEW); (ii) the Engineers  
22 and Scientists of California (ESC); and (iii) the Service Employees International  
23 Union (SEIU).

24 PG&E has been a major contributor to California's clean energy and climate  
25 efforts. During 2018, 38.9 percent of PG&E's energy deliveries, slightly over  
26 19,000 GWh, were from renewable energy sources, exceeding the annual  
27 Renewable Portfolio Standards target of 29 percent and reaching California's  
28 2020 renewable energy goal ahead of schedule. PG&E has led the way in  
29 helping California achieve its ambitious clean energy and climate goals, and it is  
30 committed to continuing this clean energy leadership. PG&E's Plan is designed  
31 to allow us to continue to do so.

32 However, PG&E also has fallen short in recent years, at times with grave  
33 consequences. These shortcomings are well-known, in particular the 2010  
34 San Bruno explosion and the catastrophic wildfires of 2017 and 2018. These

1 events undermined customers' and other stakeholders' trust and confidence in  
2 PG&E and its governance.

3 PG&E has embarked on significant structural improvements across the  
4 entire enterprise to revamp the organization around a culture of customer  
5 welfare, including public and occupational safety. As described in the  
6 accompanying testimony, PG&E is implementing and upgrading a variety of  
7 important management, organizational and reporting structures, accompanied  
8 by an executive compensation structure and performance metrics that heavily  
9 incentivize customer welfare and safety.

10 PG&E has refreshed its Board membership, replacing over 80 percent of the  
11 Board members since it filed for Chapter 11. The new Boards have extensive  
12 expertise in utility operations and regulation, safety, renewable energy, finance  
13 and technology, and have taken action to impose additional rigor and  
14 accountability around risk reporting. PG&E also has refreshed its officer corps,  
15 with nearly 70 percent of its officers, including over 75 percent of its senior and  
16 executive officers, having been replaced since September 2017.

17 PG&E is dedicated to emerging from Chapter 11 as a utility that safely and  
18 reliably delivers affordable and clean energy to our customers and communities.  
19 PG&E's proposed POR is built around enabling and enhancing that mission.  
20 PG&E's Plan is focused on fairly resolving wildfire claims, exiting the Chapter 11  
21 process as quickly as possible, protecting customer rates, and putting PG&E on  
22 a path to be the safe energy company our customers expect and deserve.

#### 23 **D. Overview of PG&E's Plan of Reorganization and Supporting Testimony**

24 On December 12, 2019, PG&E submitted to the bankruptcy court a plan of  
25 reorganization which incorporated the settlement reached with the Tort  
26 Claimants Committee, representatives of individuals holding over 70 percent  
27 in number of fire victim claims, and various other parties.<sup>1</sup> Based on a  
28 Restructuring Support Agreement reached last week with the Ad Hoc  
29 Bondholders group (Bondholder RSA), PG&E is filing today a further amended

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1 Debtors' and Shareholder Proponents' Joint Ch. 11 Plan of Reorg., Dated  
December 12, 2019, *In re: PG&E Corp.*, No. 19-30088 (Bankr. N.D. Cal. December 12,  
2019).

1 plan of reorganization (PG&E's Plan or Amended Plan).<sup>2</sup> The key terms of that  
2 Amended Plan are also referenced in this and the accompanying testimony.  
3 However, to the extent this testimony does not fully reflect the Amended Plan or  
4 revisions thereto, PG&E will supplement this testimony accordingly.

5 In addition, PG&E has carefully considered views expressed by California's  
6 Governor regarding its prior Plan, and PG&E's accompanying testimony  
7 includes a number of additional commitments designed to address the  
8 Governor's concerns and to ensure that PG&E's Plan satisfies AB 1054.

9 The following summarizes some of the key features of PG&E's Plan,  
10 including the payment of Fire Claims, the Utility's participation in the Wildfire  
11 Fund established by AB 1054, assumption of existing agreements, and  
12 provisions that contemplate the resolution of other proceedings before  
13 the Commission.<sup>3</sup>

#### 14 Payment of Wildfire Claims

15 It is PG&E's intent to fully and fairly compensate all eligible wildfire victims.  
16 To that end, PG&E has now entered into settlements (as embodied in the  
17 corresponding restructuring support agreements) with all major groups of wildfire  
18 victims. Based on those settlements, PG&E's Plan provides for the payment of  
19 claims related to the fires that occurred in Northern California in 2015, 2017, and  
20 2018, in the agreed amounts totaling \$25.5 billion. PG&E has also reached a  
21 settlement with the CPUC Safety and Enforcement Division, the Office of the  
22 Safety Advocate, the Public Advocates Office at the California Public Utilities  
23 Commission, and the Coalition of California Utility Employees related to 2017  
24 and 2018 wildfires, to resolve claims in the Wildfire Order Instituting Investigation  
25 (OII), which settlement provides for, among other things, \$50 million in  
26 shareholder-funded system enhancements and agreement not to seek rate  
27 recovery for certain wildfire-related costs in the amount of \$1.625 billion.

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<sup>2</sup> Debtors' and Shareholder Proponents' Joint Ch. 11 Plan of Reorg. Dated January 31, 2020, *In re: PG&E Corp.*, No. 19-30088 (Bankr. N.D. Cal. January 31, 2020).

<sup>3</sup> *Id.* § 1.75 ("Fire Claim means any claim against the Debtors in any way arising out of the Fires..."); *id.* § 1.83 and Ex. A (defining the Fires to which Fire Claims relate).

1        Participation in the Wildfire Fund

2            AB 1054 establishes a Wildfire Fund to pay certain claims arising from  
3        wildfires.<sup>4</sup> PG&E's Plan provides that, on the Effective Date, the Utility will make  
4        its required initial contribution (approximately \$4.8 billion) and first annual  
5        contribution (approximately \$193 million) in order to meet the requirements for  
6        participation in the Wildfire Fund under AB 1054.<sup>5</sup>

7        Funded Debt Restructuring

8            Under the terms of the Bondholder RSA, PG&E will refinance portions of its  
9        long-term debt which bear relatively higher interest rates, with new debt that is  
10       anticipated to bear lower interest rates. PG&E also will pay a lower post-filing  
11       interest rate than had been sought by the bondholders. As discussed by Jason  
12       Wells in the accompanying Chapter 2, this agreement will yield significant cost  
13       savings for PG&E, for the benefit of its customers, as well as reducing execution  
14       financing risk.

15       Assumption of Agreements

16           PG&E's Plan provides that, upon its emergence from Chapter 11, the  
17       Utility will leave all trade claims unimpaired and will assume various existing  
18       agreements, including the following. First, PG&E's Plan provides that, upon the  
19       plan's Effective Date, all power purchase agreements, renewable energy power  
20       purchase agreements, and Community Choice Aggregation (CCA) servicing  
21       agreements of the Debtors shall be deemed assumed.<sup>6</sup> Assuming these  
22       agreements will continue PG&E's commitment to providing energy from  
23       renewable sources, in furtherance of achieving the state's climate goals and in  
24       accordance with the choices of local communities.

25           Second, PG&E's Plan also provides that agreements related to its  
26       employees will be assumed. On the Effective Date, all Employee Benefit Plans  
27       will be assumed.<sup>7</sup> In addition, on or prior to the Effective Date (provided

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4       Pub. Util. Code §§ 3280-3297.

5       See *id.* § 3292(e).

6       PG&E's Plan § 8.1(a).

7       *Id.* § 8.5.



the Effective Date occurs), PG&E will assume its Collective Bargaining Agreements.<sup>8</sup> These Collective Bargaining Agreements include:

- Two agreements currently in place between the Utility and Local Union No. 1245 of the IBEW: (i) the IBEW Physical Agreement, and (ii) the IBEW Clerical Agreement;
- The Collective Bargaining Agreement currently in place between the Utility and the ESC Local 20, of the International Federation of Professional and Technical Engineers; and
- The Collective Bargaining Agreement currently in place between the Utility and the SEIU.<sup>9</sup>

In addition, PG&E and the IBEW have agreed that the above-referenced IBEW agreements will be extended until December 31, 2025 and have agreed to a number of significant enhancements for the benefit of IBEW members.<sup>10</sup> The assumption of these agreements, and related extensions and enhancements, will ensure that employees continue to benefit from those agreements and thus are treated fairly after PG&E's emergence from Chapter 11 under the PG&E Plan.

Third, under PG&E's Plan, all allowed prepetition environmental obligations, allowed prepetition obligations related to the Diablo Canyon project, and all allowed prepetition state tax obligations will be paid in full, and PG&E will pay currently due state tax obligations promptly.

#### Commission Approvals

A condition precedent to the Confirmation of PG&E's Plan is that "[t]he debtors have received CPUC Approval."<sup>11</sup> Similarly, a condition precedent to the Effective Date of PG&E's Plan is that "[t]he CPUC Approval remains in full

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<sup>8</sup> *Id.* § 8.6.

<sup>9</sup> *Id.* §§ 1.29, 1.118.

<sup>10</sup> Among other things, Health Reimbursement Accounts deductibles, out-of-pocket maximums, co-payments, and employee premium contributions will remain at the 2020 amounts through 2025, there will be a General Wage Increase of 3.75 percent for each of 2022, 2023, 2024 and 2025, there will be no involuntary lay-offs of IBEW represented employees (except for cause) unless agreed to by IBEW, and PG&E management and IBEW leadership will focus their attention and skills on working together to improve safety and safety culture at PG&E.

<sup>11</sup> *Id.* § 9.1(c).



1 force and effect.”<sup>12</sup> PG&E’s Plan defines CPUC Approval to mean “all  
2 necessary approvals, authorizations and final orders from the CPUC to  
3 implement the Plan, and to participate in the Go-Forward Wildfire Fund.”<sup>13</sup>

4 The Plan further defines CPUC Approval to encompass the resolution of  
5 specified issues, including issues within the scope of ongoing CPUC  
6 proceedings. Those issues include “satisfactory resolution of claims for  
7 monetary fines or penalties under the California Public Utilities Code for  
8 perpetration conduct.”<sup>14</sup> The Utility has now reached settlements, that are  
9 pending CPUC approval, of claims for fines and penalties in the Wildfire OII,  
10 Locate and Mark OII, and Ex Parte OII, which will satisfy the CPUC Approval  
11 condition with respect to those matters. The CPUC Approval issues also include  
12 “satisfactory provisions pertaining to authorized return on equity and regulated  
13 capital structure,” and “approval (or exemption from approval) of the financing  
14 structure and securities to be issued under Article VI of the Plan, including one  
15 or more financing orders approving the Wildfire Victim Recovery Bonds.”<sup>15</sup>  
16 The Commission has authorized a return on equity of 10.25 percent and an  
17 authorized capital structure of 52 percent common equity, 47.5 percent  
18 long-term debt, and 0.5 percent preferred equity. PG&E is willing to accept this  
19 resolution as satisfactory for the purpose of effectiveness of PG&E’s Plan, which  
20 will satisfy the CPUC Approval condition with respect to that issue.

21 CPUC Approval is also defined to encompass “a disposition of proposals for  
22 certain potential changes to the Utility’s corporate structure and authorizations  
23 to operate as a utility.”<sup>16</sup> An OII into PG&E’s Safety Culture, No. Investigation  
24 (I.) 15-08-019 (Safety Culture OII), addresses PG&E’s corporate governance,  
25 structure, and operations. In that proceeding, the Commission may review  
26 alternatives to PG&E’s current management and operational structures,  
27 including proposals to separate the Utility into separate gas and electric utilities  
28 or sell its gas assets; establish periodic review of the Utility’s Certificate of Public

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12 *Id.* § 9.2(m).

13 *Id.* § 1.37.

14 *Id.* § 1.37(c).

15 *Id.* § 1.37(a), (d).

16 *Id.* § 1.37(b).

1 Convenience and Necessity; modify or eliminate PG&E's holding company  
2 structure; and link the Utility's rate of return or return on equity to safety  
3 performance metrics.<sup>17</sup> For reasons discussed in the Safety Culture OII filings,  
4 the foregoing proposals are unwise. PG&E proposes that the potential  
5 restructuring focus at this time should be on the proposed Regional  
6 Restructuring Plan (see Mr. Vesey's testimony), and assuming that the CPUC  
7 gives its approval to that restructuring, the CPUC should put a moratorium on  
8 considering those other structural alternatives for at least the proposed initial  
9 time period for the Regional Restructuring Plan.

#### 10 Safety Governance and Boards of Directors

11 As discussed in detail in the accompanying chapters of testimony, PG&E is  
12 in the process of very substantial upgrades to its safety and reliability-related  
13 operations, and related governance, including extraordinary efforts to address  
14 wildfire issues. PG&E's Plan will put it on sound footing to continue those safety  
15 and reliability enhancements.

16 In addition, in 2019, PG&E's Boards underwent a refreshment process that  
17 brought to PG&E fresh perspectives and a range of diverse backgrounds,  
18 experiences, skills, and expertise, including in the areas of safety, utility  
19 operations, utility regulation, finance, restructuring, accounting, and government.  
20 Following the refreshment process, the Boards have engaged in initiatives to  
21 enhance oversight of safety, risk, and compliance.<sup>18</sup>

22 Under PG&E's Plan, the members of the Boards may continue to serve as  
23 directors after the Effective Date.<sup>19</sup> PG&E expects some of those directors to  
24 continue with reorganized PG&E but PG&E also expects some of the current  
25 directors will not continue to serve post-emergence. PG&E's Plan will allow the  
26 Boards to carry forward the initiatives described by Ms. Brownell in her  
27 accompanying testimony, including further enhancements prompted by the

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17 Joint Assigned Commissioner's and Administrative Law Judge's Ruling on Proposals to Improve the Safety Culture of PG&E and PG&E Corp., I.15-08-019 (June 18, 2019), at 1.

18 These developments are detailed in the accompanying testimony of Ms. Nora Mead Brownell.

19 PG&E's Plan § 6.11(c).

1 Governor's comments and public letter to me ("Governor's letter"),<sup>20</sup> and to  
2 continue PG&E's efforts to improve the safety and reliability of its service to  
3 customers.

4 Overview of Accompanying Testimony Establishing AB 1054 Compliance

5 The accompanying testimony presents substantial detail regarding PG&E's  
6 enhanced governance, with particular focus on elements relating to safety and  
7 other factors pertinent to the CPUC's analyses under AB 1054, particularly  
8 Public Utilities Code (Pub. Util. Code) Section 3292, which was enacted as part  
9 of AB 1054. Those governance elements reflect what PG&E intends and  
10 anticipates will be the governance of reorganized PG&E upon its emergence  
11 from Chapter 11 under PG&E's Plan, and are responsive to various concerns  
12 raised in the Governor's letter regarding satisfaction of AB 1054. PG&E will  
13 incorporate into its Plan or related documents the direction the Commission  
14 provides in its decision with regard to the governance matters addressed in the  
15 accompanying testimony.

16 The remainder of PG&E's opening testimony consists of the following  
17 chapters:

- 18 • Chapter 2 – PG&E's Plan and Financing (Jason Wells) [SM<sup>21</sup> 4.3-4.7]
- 19 • Chapter 3 – PG&E Access to Capital Post-Emergence (John Plaster)  
20 [4.3, 4.6]
- 21 • Chapter 4 – Board Governance (Nora Mead Brownell) [SM 3.1]
- 22 • Chapter 5 – Utility Safety and Governance (Andrew M. Vesey) [SM 3.1]  
23 Including sub-sections sponsored by other witnesses:
  - 24 – Data, Metrics and Risk Management (Stephen Cairns)
  - 25 – ISO 55000 (Amit Gupta)
  - 26 – Enterprise Records and Information Management (Megan Hertzler)
- 27 • Chapter 6 – Wildfire Safety (Deborah Powell) [SM 3.1]  
28 Including sub-sections sponsored by other witnesses:
  - 29 – Wildfire Safety Programs (Matt Pender)
  - 30 – Public Safety Power Shutoff Program (Tracy Maratukulam)

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<sup>20</sup> See Letter from Governor Gavin Newsom to William D. Johnson (Dec. 13, 2019).

<sup>21</sup> For each chapter, PG&E provides cross-references to the issue sections set forth in the Assigned Commissioner's Scoping Memo and Ruling, dated November 14, 2019, at pp. 4-7 ("SM").

- Chapter 7 – Governance: Executive Compensation (John Lowe) [SM 3.1, 4.3]
- Chapter 8 – Governance: Probation/Compliance (Julie Kane) [SM 3.2]
- Chapter 9 – Climate (Jessica Hogle; Martin Wyspianski) [SM 3.3]
- Chapter 10 – Rates and Rate Neutrality (Robert Kenney) [SM 4.1, 4.4, 4.5]
- Chapter 11 – Fines and Penalties (Robert Kenney) [SM 4.2]
- Chapter 12 – Section 854 Considerations (Robert Kenney) [SM 3.4, 4.6]

As demonstrated by the opening testimony as a whole, PG&E's Plan meets all the requirements of AB 1054 including the Section 3292 requirements therein. The criteria established by AB 1054 (including those elements of the statute identified in the Governor's Letter), and some of the key elements satisfying those elements, are outlined in the following table and summarized further below.

<b>Governance</b> [Pub. Util. Code § 3292(b)(1)(C); Governor's Letter at 3]	
<u>Safety Management</u>	<ul style="list-style-type: none"> <li>Enhanced roles of Chief Risk Officer and Chief Safety Officer</li> <li>Additional safety oversight by Independent Safety Oversight Council, led by Independent Safety Advisor</li> <li>Expanded Enterprise and Risk Management Program</li> <li>Improved asset management, data collection, and record keeping</li> <li>Improved system reliability, including decreasing the effects of Public Safety Power Shutoff (PSPS) events</li> <li>Development of clearly defined safety and operational metrics and corrective action process</li> <li>Enhanced vegetation management, safety inspections, and system hardening</li> </ul>
<u>Board-level Governance</u>	<ul style="list-style-type: none"> <li>Refined skills matrix for qualifications of Board members, including extensive safety qualifications</li> <li>Refreshed Board membership upon emergence, including substantial presence of California residents</li> <li>Expanded responsibility of Safety and Nuclear Oversight Committee regarding wildfire mitigation and PSPS</li> <li>Increased Board oversight of risk management and PSPS events</li> <li>Board approval of senior management</li> </ul>
<u>Restructuring</u>	<ul style="list-style-type: none"> <li>Regional restructuring plan to get closer to customers</li> </ul>
<u>Probation</u>	<ul style="list-style-type: none"> <li>Extensive compliance efforts, reviews and overall ethics &amp; compliance training</li> </ul>

<p><b>Executive Compensation Structured to Promote Safety</b> [Pub. Util. Code § 8389(e)(4)&amp;(e)(6)]</p> <ul style="list-style-type: none"> <li>• Majority of executive compensation will be at risk and based on achievement of objective performance metrics</li> <li>• The performance metrics will be heavily weighted toward customer and workforce welfare, and within that category, primarily wildfire safety and other public and employee safety metrics</li> <li>• A significant portion of executive compensation will consist of equity awards that will satisfy AB 1054's three-year holding requirement</li> </ul>
<p><b>Satisfaction of Wildfire Claims</b> [Pub. Util. Code § 3292(b)(1)(B)]</p> <ul style="list-style-type: none"> <li>• \$25.5 billion for wildfire claimants</li> <li>• Plan satisfies claims in amounts agreed upon in settlements</li> </ul>
<p><b>Neutral to Ratepayers</b> [Pub. Util. Code § 3292(b)(1)(D)(ii), (E)]</p> <ul style="list-style-type: none"> <li>• Plan does not cause any rate increase</li> <li>• Plan saves interest expense for benefit of ratepayers</li> <li>• Plan does not call for contribution from ratepayers</li> </ul>
<p><b>Financial Condition</b> [Pub. Util. Code § 3292(b)(1)(C); Governor's Letter at 4]</p> <ul style="list-style-type: none"> <li>• PG&amp;E has sufficient funding to emerge from Chapter 11</li> <li>• PG&amp;E will be financially healthy upon emergence with access to debt and equity capital, including to fund wildfire prevention and other infrastructure investments</li> </ul>
<p><b>State Climate Goals</b> [Pub. Util. Code § 3292(b)(1)(D)(i)]</p> <ul style="list-style-type: none"> <li>• PG&amp;E reaffirms renewables purchase agreements</li> <li>• PG&amp;E highly supportive of State's climate initiatives</li> </ul>

1           First, Section 3292(b)(1)(A) requires that PG&E's insolvency "has been  
2           resolved [by June 30, 2020] pursuant to a plan or similar document not subject  
3           to a stay." PG&E is expeditiously pursuing confirmation of PG&E's Plan in the  
4           Bankruptcy Court and expects that the Bankruptcy Court will be able to confirm  
5           PG&E's Plan in advance of June 30, 2020.

6           Second, Section 3292(b)(1)(B) requires "[t]he bankruptcy court ... [to]  
7           determine[] that the resolution of the insolvency proceeding ... provides for  
8           satisfying any prepetition wildfire claims asserted against [PG&E] in the  
9           insolvency proceeding in the amounts agreed upon" in settlement agreements or  
10          otherwise allowed by the court. PG&E has now entered into settlements with all  
11          major groups of wildfire claimants. As described in the testimony of Mr. Jason  
12          Wells in Chapter 2, PG&E's Plan provides for the payment of \$25.5 billion to  
13          satisfy Fire Claims, which are defined as any past, present, or future claims  
14          related to specified wildfires that occurred in Northern California in 2015-2018, in  
15          the amounts agreed upon in the settlements with wildfire claimants.

1           *Third*, under Section 3292(b)(1)(C), the Commission must “ha[ve] approved  
2 the reorganization plan and other documents resolving the insolvency  
3 proceeding, including [PG&E]’s resulting governance structure as being  
4 acceptable in light of [PG&E]’s safety history, criminal probation, recent financial  
5 condition, and other factors deemed relevant by the commission.” PG&E is  
6 implementing structural changes across the Company, including changes to  
7 governance structure at the level of management and PG&E’s Boards of  
8 Directors, to improve safety and operational performance for the long term.  
9 Based on that robust, safety-oriented governance structure, PG&E respectfully  
10 submits that the Commission should approve PG&E’s Plan, and its associated  
11 governance structure, as acceptable in light of PG&E’s recent history, financial  
12 condition and probation.

13           The testimony of Ms. Nora Mead Brownell in Chapter 4 reflects the Board-  
14 level governance structure that PG&E intends upon emergence from Chapter 11  
15 under PG&E’s Plan. This structure is the product of recent and ongoing reforms  
16 that are designed to enhance oversight of the companies’ efforts to improve  
17 safety culture and performance; to reduce risk; to ensure compliance with  
18 applicable laws, regulations, and policies; and to reduce the incidence and  
19 impacts of Public Safety Power Shutoff (PSPS) events. Similarly, the testimony  
20 of Mr. Andrew Vesey in Chapter 5 describes the improved governance structure  
21 of the Utility, including the qualifications and responsibilities of senior leadership  
22 and the empowerment of safety leaders. His testimony describes the ongoing  
23 efforts to reorient the Utility around the goals of improving safety culture and  
24 performance and to enhance the customer experience, including through  
25 increased system reliability.

26           Also relevant to the Commission’s consideration of PG&E’s governance  
27 structure is PG&E’s criminal probation resulting from the San Bruno tragedy,  
28 which is discussed in the testimony of Ms. Julie Kane in Chapter 8. PG&E has  
29 undertaken extensive efforts to comply with all aspects of the judgment that  
30 imposed the probation term, and has sought to cooperate fully with the Federal  
31 Monitor appointed by the sentencing court.

32           Finally, PG&E’s emergence from Chapter 11 pursuant to PG&E’s Plan will  
33 markedly improve PG&E’s financial condition. As described in Mr. Wells’  
34 testimony, as well as the testimony of Mr. John Plaster in Chapter 3, PG&E’s



1 Plan will reduce its cost of financed debt, for the benefit of its customers, and it  
2 positions the Utility and PG&E Corporation to be financially healthy upon  
3 emergence, with improving credit ratings and access to equity and debt markets.

4 For these reasons and the other reasons provided in PG&E's testimony, the  
5 Commission's approval of PG&E's Plan is warranted, and in particular PG&E's  
6 governance structure is acceptable to facilitate PG&E's continuing efforts to  
7 provide safe, reliable, and affordable service.

8 *Fourth*, Section 3292(b)(1)(D) requires the Commission to "determine[]" that  
9 the reorganization plan and other documents resolving the insolvency  
10 proceeding are ... consistent with the state's climate goals as required pursuant  
11 to the California Renewables Portfolio Standard Program and related  
12 procurement requirements of the state." As described in Chapter 9, in the  
13 testimony of Ms. Jessica Hogle and Mr. Martin Wyspianski, PG&E is committed  
14 to continuing its strong track record of sustainability and leadership in meeting  
15 the challenges of a changing climate following its emergence from Chapter 11,  
16 and will continue to meet the Renewables Portfolio Standard and other  
17 procurement requirements. In addition, PG&E's Plan provides that the Utility will  
18 assume all power purchase agreements, renewable energy power purchase  
19 agreements, and CCA servicing agreements, further supporting the  
20 development of renewable energy sources in California.

21 *Fifth*, Section 3292(b)(1)(D) and (E), respectively, require the Commission to  
22 "determine[]" that the reorganization plan and other documents resolving the  
23 insolvency proceeding are ... neutral, on average, to the ratepayers of the  
24 electrical corporation" and "recognize the contributions of ratepayers, if any, and  
25 compensate them accordingly through mechanisms approved by the  
26 commission, which may include sharing of value appreciation." As described in  
27 the testimony of Mr. Robert Kenney in Chapter 10, PG&E's Plan is "neutral, on  
28 average, to the ratepayers" because it does not cause customers to pay more  
29 on average than they would in the absence of PG&E's reorganization under that  
30 plan, and, indeed, PG&E's Plan will generate cost savings that will benefit  
31 ratepayers. For similar reasons, PG&E's Plan also meets the requirement of  
32 Section 3292(b)(1)(E) because it does not require any contributions from  
33 ratepayers beyond the baseline of what would have been required absent  
34 Chapter 11.

1 PG&E's Plan and the associated commitments expressed in PG&E's  
2 accompanying testimony not only satisfy AB 1054 but are designed to address  
3 the concerns raised in the Governor's December 13, 2019 letter regarding those  
4 requirements. The Governor's letter stated that the plan "should include  
5 stringent governance and management requirements [and] enforcement  
6 mechanisms,"<sup>22</sup> which would include "[s]trict, clearly defined operational and  
7 safety metrics to which the reorganized company will be held accountable," and  
8 an "escalating enforcement process that provides for greater oversight ... if  
9 [PG&E] fails to meet the defined operational and safety metrics."<sup>23</sup> The  
10 accompanying testimony shows that PG&E is going to great lengths to  
11 establish governance systems that embody such safety orientation, oversight  
12 and accountability.

13 As described in Mr. Vesey's testimony, PG&E is committing to numerous  
14 concrete steps to improve its safety and reliability, and to elevate those issues in  
15 its governance structures, as it emerges from Chapter 11. In addition, PG&E will  
16 develop a regional restructuring plan designed to place leadership and  
17 operations closer to their customers, which PG&E will implement subject to  
18 appropriate Commission approvals.

19 Moreover, PG&E will propose safety and operational metrics to the  
20 Commission. PG&E recognizes that the Commission may intervene if PG&E  
21 falls shorts of those metrics, and PG&E will seek to work with the Commission to  
22 construct a process for early identification of shortcomings and prompt  
23 implementation of corrective actions, which will serve as an early stage of  
24 potentially escalating Commission enforcement.

25 In addition, as described in the testimony of Mr. John Lowe in Chapter 7,  
26 PG&E will implement an incentive compensation program that puts a majority of  
27 senior executives' incentive compensation at risk, based on objective, verifiable,  
28 and auditable outcome-based performance metrics weighted predominantly to  
29 customer and workforce welfare, and especially to safety.

30 The Governor's letter also refers to "[c]hanges that will result in a more  
31 qualified and independent board of directors," whose members would be

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<sup>22</sup> Letter from Governor Gavin Newsom to William D. Johnson (Dec. 13, 2019), at 2.

<sup>23</sup> *Id.* at 3.



1 “selected based on a pre-determined set of qualifications, include members with  
2 extensive safety experience, and be comprised of a majority of Californians.”<sup>24</sup>  
3 As described in Ms. Brownell’s testimony, there will be changes to PG&E’s  
4 Boards upon PG&E’s emergence from Chapter 11 that will ensure that Boards  
5 are independent and possess the necessary safety expertise, and other critical  
6 expertise to oversee PG&E.

7 PG&E expects that, upon emergence, the Boards will be refreshed. PG&E  
8 is developing a revised “director skills matrix” that will set forth the experience,  
9 skills, characteristics, and expertise that PG&E desires its Board members  
10 collectively to possess; all of the identified attributes are germane to PG&E’s  
11 needs, including its safety environment, going forward. In addition, PG&E  
12 intends that at least 25 percent of the directors will be California residents at the  
13 time of their election, and PG&E will use best efforts to achieve a target of at  
14 least 50 percent California resident directors upon emergence. Finally, PG&E  
15 will expand the purview of the Boards’ Safety and Nuclear Oversight Committee  
16 to include oversight of PG&E’s Wildfire Mitigation Plan, wildfire and disaster  
17 mitigation activities, initiation and execution of PSPS events, and responses to  
18 recommendations of the Independent Safety Advisor, thereby centralizing safety  
19 oversight in the committee.

20 In sum, PG&E has taken to heart the Governor’s concerns, and the PG&E  
21 Plan and accompanying testimony commitments embody the Governor’s  
22 principles and more than satisfy the requirements of AB 1054.

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<sup>24</sup> *Id.* at 3.

**PACIFIC GAS AND ELECTRIC COMPANY**  
**CHAPTER 2**  
**OPENING TESTIMONY TO**  
**DESCRIPTION OF PG&E'S PLAN AND PLAN FUNDING**  
**SCOPING MEMO ISSUES: 4.1 (RATEMAKING); 4.3**  
**(GOVERNANCE STRUCTURE AND FINANCIAL CONDITION);**  
**AND 4.7 (OTHER FINANCIAL ISSUES)**

PACIFIC GAS AND ELECTRIC COMPANY  
CHAPTER 2  
OPENING TESTIMONY TO  
DESCRIPTION OF PG&E'S PLAN AND PLAN FUNDING SCOPING MEMO  
ISSUES: 4.1 (RATEMAKING); 4.3 (GOVERNANCE STRUCTURE AND FINANCIAL  
CONDITION); AND 4.7 (OTHER FINANCIAL ISSUES)

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**MEMO ISSUES: 4.1 (RATEMAKING); 4.3 (GOVERNANCE**  
**STRUCTURE AND FINANCIAL CONDITION); AND 4.7 (OTHER**  
**FINANCIAL ISSUES)**

**A. Executive Summary**

**1. Summary of Plan of Reorganization**

Pacific Gas & Electric Company's (PG&E or the Company or the Utility) Chapter 11 Proposed Plan of Reorganization (PG&E's Plan) will successfully resolve the Chapter 11 cases in a manner that:

- Provides \$25.5 billion for the expeditious and fair compensation to wildfire victims and other wildfire claimants without a lengthy trial process on individual claims, all in accordance with Assembly Bill (AB) 1054;
- Refinances certain high-coupon prepetition debt of the Utility, thereby yielding approximately \$1 billion in interest rate savings for the benefit of customers;
- Complies with AB 1054, enabling the Utility to participate in and providing nearly \$5 billion in funding for AB 1054's Wildfire Fund;
- Is fair to Utility employees by assuming employee benefit plans and collective bargaining agreements and allowing workers' compensation claims to ride through;
- Addresses the critical prepetition liabilities that precipitated PG&E's Chapter 11 filings;
- Does not increase customer rates; and
- Positions the Utility and PG&E Corporation to be financially healthy upon emergence.

**2. Summary of Plan Funding and Associated Uses**

The following table summarizes plan funding sources and associated uses:

**TABLE 2.1: SOURCES & USES**

<b>SOURCES</b>		<b>USES</b>	
<b>New Equity in PG&amp;E Corporation</b>	\$15.75 billion	<b>Fire Claims</b>	<b>\$24.15 billion<sup>1</sup></b>
New money equity raise	\$9 billion	<b>Contribution to Wildfire Fund</b>	<b>\$5 billion</b>
Equity issued to Fire Victim Trust	\$6.75 billion	<b>Debtor-In-Possession Financing</b>	<b>\$2 billion</b>
<b>New PG&amp;E Corporation Debt</b>	<b>\$4.75 billion</b>	<b>Prepetition Debt</b>	<b>\$22.18 billion</b>
<b>Reinstated Utility Debt</b>	<b>\$9.575 billion</b>	<b>Trade Claims and Other Costs</b>	<b>\$2.3 billion</b>
<b>New Utility Debt</b>	<b>\$23.775 billion</b>	<b>Accrued Interest</b>	<b>\$1.27 billion</b>
Refinancing of Pollution Control Bonds	\$0.1 billion	<b>Cash</b>	<b>\$0.75 billion</b>
Noteholder RSA debt	\$11.85 billion	<b>Total Uses</b>	<b>\$57.65 billion</b>
New debt	\$5.825 billion		
Temporary Utility Debt	\$6 billion		
<b>Insurance Proceeds</b>	<b>\$2.2 billion</b>		
<b>Cash at Emergence</b>	<b>\$1.6 billion</b>		
<b>Total Sources</b>	<b>\$57.65 billion</b>		

1 PG&E will also pursue a securitization financing that is rate-neutral, on  
2 average, for \$7 billion of wildfire claims costs in a separate application. The  
3 proceeds from the securitization will be used to retire \$6 billion in temporary  
4 Utility debt and to accelerate the remaining deferred payment to the Fire Victim  
5 Trust. PG&E will use the proceeds from the realization of certain shareholder tax  
6 benefits, including Net Operating Losses (NOLs), and other credits to provide  
7 rate reductions so customers, on average, will not pay the associated cost of the  
8 securitization charges.

9 While the plan is not dependent on the approval of the post emergence  
10 securitization, the approval of such securitization will improve the Utility's credit  
11 metrics, which will reduce the cost of financing over time for the benefit of all  
12 customers, and will provide for the acceleration of the deferred payment to the  
13 Fire Victim Trust for the benefit of individual wildfire victims and the other  
14 beneficiaries of that trust.

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<sup>1</sup> Does not included \$1.35 billion deferred payment to the Fire Victim Trust.

1       **3. Summary of Financial Position at Emergence**

2           PG&E anticipates the Utility will emerge from bankruptcy with a balanced  
3       capital structure that complies with its current authorized regulatory capital  
4       structure (see D.19-12-056) provided that the Commission approves the  
5       adjustments regarding the wildfire fund contribution and temporary debt  
6       requested herein.

7           PG&E Corporation and the Utility have secured financing commitments for  
8       the \$9 billion of equity funding, \$4.75 billion of PG&E Corporation debt and  
9       \$5.825 billion of Utility debt from financial institutions to backstop the funding of  
10      the proposed plan. Additionally, the Utility has settled or re-instated \$21.435  
11      billion of debt needed to comply with its capital structure requirements.

12          The Utility expects to achieve investment grade ratings for secured debt  
13      upon emergence. The Utility also expects to have investment-grade credit  
14      metrics at emergence and will have a clear path towards improving its credit  
15      metrics over time. Given this profile, PG&E is confident it will maintain ongoing  
16      access to the financial markets post emergence, absent material adverse  
17      events.

18       **4. Summary of Requested Financing Authorizations**

19          To consummate the exit financing, the Utility requests authorization (1) to  
20      issue approximately \$11.85 billion in long-term debt as contemplated by the  
21      Noteholder RSA and according to the terms described therein; (2) up to \$11.925  
22      billion in additional long-term debt to finance PG&E's Plan and subsequent exit  
23      from Chapter 11;<sup>2</sup> (3) up to \$6 billion in short-term debt authority for the Utility's  
24      working capital and short-term debt needs for exit from bankruptcy and on-going  
25      working capital and short-term needs and contingencies after exit; and (4)  
26      authorization of up to \$11.925 billion in short-term debt to temporarily finance  
27      PG&E's exit from bankruptcy which would be refinanced with the long-term debt  
28      described in (2) and/or in connection with PG&E's anticipated request for a  
29      securitization transaction.

30   **B. Introduction**

31          My name is Jason P. Wells. I am Executive Vice President and Chief  
32      Financial Officer for PG&E Corporation (together with its subsidiary Pacific Gas

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2      This amount also includes \$100 million for the refinancing of Pollution Control Bonds.



1 and Electric Company (the Utility), PG&E or the Debtors). My responsibilities  
2 include overseeing the financial activities of the enterprise, including accounting,  
3 treasury, tax, risk, business and financial planning, and investor relations. I have  
4 been with PG&E since 2007, holding various positions at the Utility and PG&E  
5 Corporation, including Director of Technical Accounting; Senior Director of  
6 Corporate Accounting and Assistant Controller; Vice President, Finance; Vice  
7 President, Business Finance; and Senior Vice President and Chief Financial  
8 Officer. I have served as Chief Financial Officer of PG&E Corporation since  
9 January 2016 and in my current position at PG&E Corporation since June 2019.  
10 Before joining PG&E, I was a senior manager at PricewaterhouseCoopers LLP.  
11 I hold Bachelor of Science and Master of Science degrees in accounting from  
12 the University of Florida and I am a certified public accountant in the state of  
13 Florida. I also have completed the Reactor Technology Course for Utility  
14 Executives at the Massachusetts Institute of Technology.

15 I understand that AB 1054, as codified in Public Utilities Code (Pub. Util.  
16 Code) § 3292,<sup>3</sup> imposes certain requirements for a reorganization plan resolving  
17 the Utility's Chapter 11 case in order for the Utility to participate in the Wildfire  
18 Fund upon emergence from Chapter 11. I believe our testimony meets those  
19 requirements and is fully compliant with AB 1054. Post emergence, PG&E and  
20 the Utility will be financially stable company positioned to continue prioritizing  
21 safe operations and customer focus while meeting California's energy needs  
22 and clean energy goals in a changed climate.

23 My testimony below has four parts. First, I summarize the key provisions of  
24 PG&E's Plan, including the expeditious and fair compensation provided to  
25 wildfire victims. Second, I describe at a high level the contemplated Plan  
26 funding that would allow PG&E's exit from Chapter 11. Third, I describe how  
27 PG&E anticipates that its Plan would position the Utility and PG&E Corporation  
28 to be financially healthy and to maintain access to debt and equity markets post-  
29 emergence. Fourth, I summarize PG&E's request for long-term and short-term  
30 debt authorization from the Commission for the Plan funding. These  
31 authorizations are necessary for the Utility to consummate the anticipated exit

---

<sup>3</sup> All further statutory references are to the Pub. Util. Code.

1 financing. My testimony is designed to assist the Commission as it evaluates  
2 PG&E's Plan as prescribed by AB 1054.

### 3 **C. PG&E's Plan of Reorganization**

4 PG&E announced its intent to commence reorganization cases under  
5 Chapter 11 of the U.S. Bankruptcy Code ("Chapter 11") on January 14, 2019 in  
6 light of the extraordinary challenges PG&E faced relating to the catastrophic  
7 wildfires of 2017 and 2018 in Northern California. Since commencing the  
8 Chapter 11 cases on January 29, 2019, PG&E and its advisors have worked,  
9 and continue to work, diligently and constructively with all relevant stakeholders,  
10 including wildfire claimants, PG&E's other creditors and shareholders, the  
11 Commission and the State to satisfactorily address the claims asserted against  
12 PG&E and to resolve the bankruptcy proceedings, while also ensuring PG&E  
13 can fulfill its mission of safely and reliably delivering affordable clean energy to  
14 its customers and restoring PG&E to financial health.

15 The following discussion briefly summarizes key terms of PG&E's Plan,<sup>4</sup> as  
16 filed in the bankruptcy court and in this proceeding. PG&E continues to engage  
17 in ongoing discussions with certain critical stakeholders, discussions that may  
18 lead to changes or amendments to PG&E's Plan. PG&E will update and revise  
19 this testimony as necessary to reflect any such changes but expects that much  
20 of the following discussion would, in broad strokes, remain applicable.

#### 21 **1. Wildfire Claims**

22 PG&E's Plan provides for the payment of \$25.5 billion in settlement of  
23 Fire Claims, which are defined as any past, present, or future claims related  
24 to specified wildfires that occurred in Northern California in 2015 through  
25 2018.<sup>5</sup> This includes four different classes of Fire Claims:

- 26 • Fire Victim Claims
- 27 • Public Entities Wildfire Claims
- 28 • Subrogation Wildfire Claims
- 29 • Subrogation Butte Fire Claims

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4 All references to PG&E's Plan refer to the version filed in the bankruptcy court on  
January 31, 2020 (U.S. Bankruptcy Court for the Northern District of California, Case  
No. 19-30088, ECF \_\_) and filed in this proceeding on January 31, 2020.

5 See PG&E's Plan §§ 1.75, 1.83 & Ex. A.

1 1) Fire Victim Claims. Fire Victim Claims include those Fire Claims  
2 against the Debtors that do not fall within the definitions of Public  
3 Entities Wildfire Claims, Subrogation Wildfire Claims, or Subrogation  
4 Butte Fire Claims, as described further below.<sup>6</sup> This includes claims  
5 by individual wildfire victims as well as others, such as claims held  
6 by certain other government entities, including fire suppression cost  
7 claims asserted by Cal OES (the California Governor's Office of  
8 Emergency Services) and disaster assistance claims asserted by  
9 FEMA (the Federal Emergency Management Agency).

10 To compensate holders of Fire Victim Claims, PG&E's Plan provides  
11 for the establishment of the Fire Victim Trust, funded with a total of  
12 \$13.5 billion, consisting of (a) \$5.4 billion in cash on the plan effective  
13 date; (b) another \$1.35 billion in cash in two installments in 2021 and  
14 2022 pursuant to the Tax Benefits Payment Agreement with the Fire  
15 Victim Trust; and (c) \$6.75 billion in (and not less than 20.9 percent of)  
16 Reorganized PG&E Corporation Common Stock.<sup>7</sup> In addition, the  
17 Debtors will assign certain rights and causes of action to the Fire Victim  
18 Trust.

19 The Fire Victim Trust will administer, process, settle, resolve,  
20 liquidate, satisfy, and pay, in full and final satisfaction, all Fire Victim  
21 Claims and all Fire Victim Claims will be subject to an injunction  
22 permanently channeling them to the Fire Victim Trust.<sup>8</sup> Pursuant to the  
23 channeling injunction, the Fire Victim Claims will be asserted exclusively  
24 against the Fire Victim Trust with no recourse to the Debtors,  
25 Reorganized Debtors, or their assets and properties. The Fire Victim  
26 Trust will be administered by the Fire Victim Trustee, whose  
27 appointment is selected by the Consenting Fire Claimant Professionals  
28 and the Tort Claimants Committee, subject to the approval of the

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<sup>6</sup> See PG&E's Plan § 1.76.

<sup>7</sup> See PG&E's Plan §§ 1.6, 1.79, 1.202, 4.7, 4.24, 6.7.

<sup>8</sup> See PG&E's Plan § 6.7.

1 bankruptcy court, and overseen by the Fire Victim Trustee Oversight  
2 Committee.<sup>9</sup>

3 2) Public Entities Wildfire Claims. Public Entities Wildfire Claims are  
4 Fire Claims against the Debtors held by Public Entities—which  
5 includes (a) the North Bay Public Entities (comprising 14 cities and  
6 counties); (b) the Town of Paradise; (c) the County of Butte; (d) the  
7 Paradise Park and Recreation District; (e) the County of Yuba; and  
8 (f) the Calaveras County Water District.<sup>10</sup> As already noted, claims  
9 by other government entities beyond those specifically defined as  
10 Public Entities are compensated through the Fire Victim Trust.  
11 PG&E's Plan provides that the Public Entities will receive \$1 billion  
12 in full and final satisfaction of their wildfire claims against the  
13 Debtors, to be distributed in accordance with the Public Entities Plan  
14 Support Agreements.<sup>11</sup> The Public Entities also will benefit from a  
15 \$10 million Public Entities Segregated Defense Fund, established  
16 for the benefit of the Public Entities to reimburse legal fees and  
17 costs associated with third party claims against the Public Entities  
18 related to the specified fires.<sup>12</sup>

19 3) Subrogation Wildfire Claims. Subrogation Wildfire Claims include  
20 any Fire Claim (other than a Fire Claim arising from the Butte Fire in  
21 2015) that arises from subrogation or assignment (whether  
22 contractual, equitable, or statutory) or otherwise in connection with  
23 payments by an insurer to insured tort victims.<sup>13</sup> Consistent with  
24 the settlement reached between the Debtors and holders of  
25 Subrogation Wildfire Claims, PG&E's Plan provides for the  
26 establishment of the Subrogation Wildfire Trust, which will be funded  
27 with a total of \$11 billion in cash.<sup>14</sup>

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<sup>9</sup> See PG&E's Plan §§ 1.81, 1.82, 6.8.

<sup>10</sup> See PG&E's Plan §§ 1.138, 1.160.

<sup>11</sup> See PG&E's Plan §§ 1.162, 1.166, 1.168, 4.5, 4.22.

<sup>12</sup> See PG&E's Plan §§ 1.164, 1.167, 6.9.

<sup>13</sup> PG&E's Plan § 1.195.

<sup>14</sup> See PG&E's Plan §§ 1.193, 1.195, 1.197, 4.23, 6.4.

1 The Subrogation Wildfire Trust will administer, process, settle,  
2 resolve, liquidate, satisfy, and pay, in full and final satisfaction, all  
3 Subrogation Wildfire Claims and all Subrogation Wildfire Claims will be  
4 subject to an injunction permanently channeling them to the Subrogation  
5 Wildfire Trust.<sup>15</sup> Pursuant to the channeling injunction, the Subrogation  
6 Wildfire Claims will be asserted exclusively against the Subrogation  
7 Wildfire Trust with no recourse to the Debtors, Reorganized Debtors, or  
8 their assets and properties. The Subrogation Wildfire Trust will be  
9 administered by the Subrogation Wildfire Trustee, who will be selected  
10 by holders of Subrogation Wildfire Claims, and overseen by the  
11 Subrogation Wildfire Trust Advisory Board.<sup>16</sup>

12 4) Subrogation Butte Fire Claims. Subrogation Butte Fire Claims  
13 include any Fire Claim arising from the Butte Fire (2015) that arises  
14 from subrogation or assignment (whether contractual, equitable, or  
15 statutory), or otherwise in connection with payments made by the  
16 insurer to insured tort victims.<sup>17</sup> Any claims related to settlements  
17 relating to Subrogation Butte Fire Claims are treated as General  
18 Unsecured Claims, discussed below.<sup>18</sup>

## 19 **2. Other Claims**

20 PG&E's Plan also resolves other prepetition claims against PG&E in the  
21 following manner:

22 a) PG&E's Plan reflects the Noteholder Restructuring Support Agreement  
23 (RSA) entered into with members of the Ad Hoc Committee of Senior  
24 Unsecured Noteholders of the Utility regarding the treatment of claims  
25 related to prepetition funded debt. Specifically:  
26 Utility Impaired Senior Note Claims. Utility Impaired Senior Note Claims  
27 relate to certain prepetition high-coupon senior notes of the Utility.<sup>19</sup>  
28 PG&E's Plan provides that Utility Impaired Senior Note Claims receive cash

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<sup>15</sup> See PG&E's Plan §§ 4.6, 4.23, 6.4.

<sup>16</sup> See PG&E's Plan §§ 1.200, 1.198, 6.5, 6.6.

<sup>17</sup> See PG&E's Plan § 1.192.

<sup>18</sup> See PG&E's Plan § 1.187.

<sup>19</sup> See PG&E's Plan §§ 1.218, 1.219, 1.220, 1.221.

1 for prepetition interest calculated at the non-default contract rate and  
2 postpetition interest calculated at the Federal Judgment Rate (28 U.S.C.  
3 § 1961(a)) as well as equal amounts of each issue of the New Utility Long-  
4 Term Notes<sup>20</sup> in an aggregate amount equal to the principal on such  
5 holder's Utility Impaired Senior Note Claim.<sup>21</sup>

6 Utility Reinstated Senior Note Claims. Utility Reinstated Senior Note  
7 Claims relate to certain prepetition low-coupon senior notes of the Utility.<sup>22</sup>  
8 PG&E's Plan provides that Utility Reinstated Senior Note Claims will be  
9 reinstated.<sup>23</sup>

10 Utility Short-Term Senior Note Claims. Utility Short-Term Senior Note  
11 Claims relate to certain prepetition senior notes of the Utility with near-term  
12 maturities.<sup>24</sup> PG&E's Plan provides that Utility Short-Term Senior Note  
13 Claims receive cash for prepetition interest calculated at the non-default  
14 contract rate and postpetition interest calculated at the Federal Judgment  
15 Rate as well as equal amounts of each issue of the New Utility Short-Term  
16 Notes<sup>25</sup> in an aggregate amount equal to the principal on such holder's  
17 Utility Short-Term Senior Note Claim.<sup>26</sup>

18 Utility Funded Debt Claims. Utility Funded Debt Claims relate to certain  
19 prepetition debt, namely the Utility's prepetition revolver, term loan, and  
20 certain pollution control bonds.<sup>27</sup> PG&E's Plan provides that Utility Funded  
21 Debt Claims receive cash for prepetition interest at the non-default contract  
22 rate, certain other fees and expenses, and postpetition interest calculated at  
23 the Federal Judgment Rate as well as equal amounts of each issue of the

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<sup>20</sup> See Section F.1.b.

<sup>21</sup> PG&E's Plan § 4.16.

<sup>22</sup> See PG&E's Plan §§ 1.229, 1.230.

<sup>23</sup> PG&E's Plan § 4.17.

<sup>24</sup> See PG&E's Plan §§ 1.240, 1.241, 1.242, 1.243.

<sup>25</sup> See Section F.1.c. (referred to as New Utility Medium-Term Notes).

<sup>26</sup> PG&E's Plan § 4.18.

<sup>27</sup> See PG&E's Plan §§ 1.212, 1.213, 1.214, 1.215.

1 New Utility Funded Debt Exchange Notes<sup>28</sup> in an aggregate amount equal  
2 to the principal on such holder's Utility Funded Debt Claim.<sup>29</sup>

3 Utility PC Bond (2008 F and 2010 E) Claims and HoldCo Funded Debt  
4 Claims. Utility PC Bond (2008 F and 2010 E) Claims relate to certain  
5 prepetition pollution control bonds of the Utility and HoldCo Funded Debt  
6 Claims relate to certain prepetition debt of PG&E Corporation.<sup>30</sup> PG&E's  
7 Plan provides that Utility PC Bond (2008 F and 2010 E) Claims and HoldCo  
8 Funded Debt Claims will receive in cash the principal amount of the claim as  
9 of the petition date (January 29, 2019), all accrued and unpaid interest owed  
10 as of that date, and interest accrued from the petition date through the date  
11 when PG&E's Plan becomes effective at the Federal Judgment Rate.<sup>31</sup>

12 b) Employee-related claims. PG&E's Plan provides that workers'  
13 compensation claims will ride through. In other words, holders of  
14 workers' compensation claims will be entitled to pursue those claims  
15 against PG&E post emergence as if the Chapter 11 cases had not been  
16 commenced.<sup>32</sup>

17 c) General Unsecured Claims. PG&E's Plan provides that General  
18 Unsecured Claims<sup>33</sup> will be paid in full. In other words, each holder of a  
19 General Unsecured Claim will receive in cash an amount equal to the

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<sup>28</sup> See Section F.1.a.

<sup>29</sup> PG&E's Plan § 4.19.

<sup>30</sup> See PG&E's Plan §§ 1.95, 1.143, 1.225.

<sup>31</sup> PG&E's Plan §§ 4.3, 4.20.

<sup>32</sup> See PG&E's Plan §§ 4.9, 4.26.

<sup>33</sup> See PG&E Plan § 1.87 (defining General Unsecured Claim as "any Claim, other than a DIP Facility Claim, Administrative Expense Claim, Professional Fee Claim, Priority Tax Claim, Other Secured Claim, Priority Non-Tax Claim, Funded Debt Claim, Workers' Compensation Claim, 2001 Utility Exchange Claim, Fire Claim, Ghost Ship Fire Claim, Intercompany Claim, Utility Senior Note Claim, Utility PC Bond (2008 F and 2010 E) Claim, or Subordinated Debt Claim, that is not entitled to priority under the Bankruptcy Code or any Final Order. General Unsecured Claims shall include any (a) Prepetition Executed Settlement Claim, including but not limited to settlements relating to Subrogation Butte Fire Claims; and (b) Claim for damages resulting from or otherwise based on the Debtors' rejection of an executory contract or unexpired lease"); *see also* PG&E Plan §§ 1.96, 1.216.



holder's claim, including all interest accrued from the Petition Date through the Effective Date at the Federal Judgment Rate.<sup>34</sup>

- d) Ghost Ship Fire claims. Claims related to the Ghost Ship Fire, which occurred in Oakland, California on December 2, 2016, may be pursued in state court against PG&E but any recovery would be limited solely to the total tower of PG&E's applicable insurance policies, as available, for 2016.<sup>35</sup>
- e) Priority Tax and Priority Non-Tax Claims. PG&E's Plan provides that Priority Tax Claims and other priority claims (i.e., Priority Non-Tax Claims) will be paid in full. That is, each holder of a Priority Tax Claim or Priority Non-Tax Claim will receive cash in an amount equal to the claim, including through the date PG&E's Plan becomes effective at the Federal Judgment Rate.<sup>36</sup> For Priority Tax Claims, PG&E can elect whether to pay (a) in full "on the Effective Date or as soon as reasonably practicable thereafter, or (b) ... in equal semi-annual installments and continuing over a period not exceeding five (5) years from and after the Petition Date, together with interest accrued thereon at the applicable nonbankruptcy rate ...".<sup>37</sup> However, any Priority Tax Claim not due and payable on or before the Effective Date will be paid in the ordinary course as such obligations becomes due. *Id.* Consistent with this provision, all allowed prepetition state tax obligations will be paid in full and PG&E will pay currently due state tax obligations promptly.
- f) Subordinated Debt Claims. PG&E's Plan provides that Subordinated Debt Claims will be paid in full. That is, each holder of a subordinated debt claim will receive cash in the amount of the claim.<sup>38</sup>
- g) Common Interests. PG&E's Plan provides that each holder of PG&E Corporation common stock will retain that interest in Reorganized PG&E Corporation subject to dilution from new equity investments and shares

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<sup>34</sup> See PG&E's Plan §§ 4.4, 4.21.

<sup>35</sup> See PG&E's Plan §§ 1.88, 1.89, 4.8, 4.25; U.S. Bankruptcy Court for the Northern District of California, Case No. 19-30088, ECF 5280.

<sup>36</sup> See PG&E's Plan §§ 1.45, 1.46, 2.4, 4.2, 4.15.

<sup>37</sup> PG&E's Plan § 2.4.

<sup>38</sup> See PG&E's Plan §§ 1.109, 1.191, 1.244, 4.11, 4.29.



distributed to the Fire Victim Trust, and receive a pro rata right to participate in any rights offering.<sup>39</sup> Utility Common Interests will be reinstated.<sup>40</sup>

h) Administrative Expense Claims. PG&E's Plan provides that Administrative Expense Claims will be paid in full. That is, each holder of an Administrative Expense Claim will be paid in the ordinary course and receive cash in the allowed amount of the claim.<sup>41</sup>

### 3. Participation in the Wildfire Fund

PG&E's Plan will enable the Utility to participate in the statewide Wildfire Fund upon emergence. Specifically, and as discussed in more detail in other chapters, PG&E's Plan complies with AB 1054's requirements and provides that on the date it becomes effective the Utility will make its initial contribution of approximately \$4.8 billion and its first annual contribution of approximately \$193 million to the Wildfire Fund established pursuant to AB 1054. See PG&E's Plan § 6.10. As described in more detail below, a portion of the Utility's contribution will come from long-term debt and, consistent with AB 1054, the Utility's contributions will not be recovered from customers. See § 3292(b)(3), (c).

The Utility's participation in the Wildfire Fund also is critical to PG&E's financial health post emergence as well as for the Wildfire Fund itself and the State. AB 1054 and the Wildfire Fund, together with the Commission's implementation of this new statutory and regulatory regime, are important for potential investors as well as for PG&E's credit ratings and access to debt and equity markets. Equally, given the size of PG&E and its service territory, the Utility's participation also is critical for the Wildfire Fund and the State, as PG&E is set to provide over 60 percent of the portion of the fund's resources that come from California utility shareholders. See § 3280(n).

### 4. Assumption of Agreements

PG&E's Plan provides for the assumption of various agreements upon emergence, once PG&E's Plan becomes effective. First, all power purchase

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<sup>39</sup> See PG&E's Plan §§ 1.93, 1.180, 4.12.

<sup>40</sup> See PG&E's Plan §§ 1.210, 4.31.

<sup>41</sup> See PG&E's Plan §§ 1.4, 2.1.

1 agreements, renewable energy power purchase agreements, and  
2 Community Choice Aggregation servicing agreements will be deemed  
3 assumed. See PG&E's Plan § 8.1; see also Ch. 9 (describing PG&E's  
4 ability to promote California's climate and energy policy goals).

5 Second, all Employee Benefit Plans and Collective Bargaining  
6 Agreements will be assumed. See PG&E's Plan §§ 1.29, 1.60, 8.5, 8.6. On  
7 the latter point, PG&E will assume (1) the two agreements currently in place  
8 between the Utility and IBEW Local 1245 ((i) the IBEW Physical Agreement,  
9 and (ii) the IBEW Clerical Agreement, as such agreements will be further  
10 amended, supplemented or modified in a manner consistent with the IBEW  
11 Agreement, attached to PG&E's Plan); (2) the Collective Bargaining  
12 Agreement currently in place between the Utility and the Engineers and  
13 Scientists of California Local 20, IFPTE; and (3) the Collective Bargaining  
14 Agreement currently in place between the Utility and the Service Employees  
15 International Union. See PG&E's Plan §§ 1.29, 1.117, 1.118. PG&E will  
16 make all outstanding payments which are accrued and unpaid as of the  
17 Effective Date pursuant to the Employee Benefit Plans promptly. In  
18 addition, the assumption of the Employee Benefit Plans will result in a full  
19 release of any claims arising under the Employee Benefit Plans at any time  
20 before the Effective Date.

## 21 **5. Management Incentive Plan**

22 PG&E's Plan also enables PG&E to comply with the requirements of  
23 AB 1054 with respect to executive compensation. Specifically, PG&E's Plan  
24 provides that the boards of the reorganized Utility and PG&E Corporation  
25 may establish and implement a management incentive plan that complies  
26 with the requirements of AB 1054. As discussed in more detail in other  
27 chapters, see Chapter 7 (describing PG&E's executive compensation  
28 program), PG&E will incorporate into its Plan or related documents any  
29 direction the Commission provides in its decision in this proceeding with  
30 regard to executive compensation in order to ensure compliance with the  
31 relevant provisions of AB 1054.

1       **6. Conditions Precedent to Plan Confirmation and Effectiveness**

2           There are a number of conditions precedent to confirmation of PG&E's  
3       Plan and to the occurrence of the Effective Date under PG&E's Plan after  
4       confirmation. For instance, both the confirmation and effectiveness of  
5       PG&E's Plan are conditioned on, inter alia, certain restructuring support  
6       agreements and backstop commitments being in full force and effect and  
7       PG&E receiving various approvals from the CPUC. See PG&E's Plan  
8       §§ 9.1, 9.2.

9           CPUC approval is defined as "all necessary approvals, authorizations  
10       and final orders from the CPUC to implement the Plan, and to participate in  
11       the Go-Forward Wildfire Fund." PG&E's Plan § 1.37. This includes:

- 12       a) "[S]atisfactory provisions pertaining to authorized return on equity and  
13       regulated capital structure." PG&E's Plan § 1.37(a). While PG&E  
14       continues to believe that the rate of return on equity authorized in  
15       D.19-12-056 is too low, PG&E is willing to accept it as satisfactory for  
16       purpose of the Plan. The Utility's Application for a Waiver of the Capital  
17       Structure Condition (A.19-02-016) remains pending. PG&E anticipates  
18       that the Utility will emerge from bankruptcy with a balanced capital  
19       structure that complies with the regulatory capital structure authorized in  
20       D.19-12-056 provided the Commission authorizes certain adjustments  
21       described in more detail below.
- 22       b) "[A] disposition of proposals for certain potential changes to the Utility's  
23       corporate structure and authorizations to operate as a utility." PG&E's  
24       Plan § 1.37(b). PG&E requests that the Commission rule in I.15-08-019  
25       that PG&E will not be forced to sell the gas business, to eliminate the  
26       holding company, or to municipalize and that the Commission will not  
27       institute a review of or make modifications to the Utility's certificate of  
28       public convenience and necessity.
- 29       c) "[S]atisfactory resolution of claims for monetary fines or penalties under  
30       the California Pub. Util. Code for prepetition conduct." PG&E's Plan  
31       § 1.37(c). As described further in Ch. 11, there are various proceedings  
32       before the Commission that address potential monetary fines or  
33       penalties under the California Public Utilities Code associated with the  
34       Utility's prepetition conduct. In I.19-06-015, I.18-12-007, I.15-11-015,

1 and I.18-07-008, the Commission either has approved or is currently  
2 considering settlement agreements entered into by PG&E and various  
3 parties. Commission approval of any settlements not yet approved  
4 would be satisfactory for purposes of this provision of PG&E's Plan.  
5 PG&E's ability to raise capital for its emergence from Chapter 11, and  
6 for its post-exit needs, assumes the Commission approves the Wildfire  
7 OII settlement currently under consideration in I.19-06-015. Other  
8 material adverse events may also impair PG&E's ability to raise capital  
9 for its emergence.

#### 10 **D. Plan Funding and Sources and Uses**

11 The funding for PG&E's Plan will consist of new and reinstated debt and  
12 equity for both the Utility and PG&E Corporation as well as other sources of  
13 funding anticipated to total approximately \$57.65 billion to enable PG&E to  
14 emerge from its Chapter 11 cases. See PG&E's Plan §§ 1.63, 1.151, 5.2, 6.15,  
15 6.16. As already noted, PG&E remains in ongoing discussions with  
16 stakeholders and may supplement and/or amend any of the following as  
17 necessary.

18 Under PG&E's Plan, \$6 billion of Temporary Utility debt will be used to pay  
19 wildfire claims at exit and therefore will be the financial responsibility of  
20 shareholders, not customers. PG&E will also pursue a securitization that is rate-  
21 neutral, on average, for \$7 billion of wildfire claims costs in a separate  
22 application. The proceeds from the securitization will be used to retire \$6 billion  
23 in Temporary Utility debt and to accelerate the remaining deferred payment to  
24 the Fire Victim Trust. PG&E will use the proceeds from the realization of the  
25 shareholder certain tax benefits, including Net Operating Losses (NOLs), and  
26 other credits to provide rate reductions so customers, on average, will not pay  
27 the associated cost of the securitization charges.

28 While the plan is not dependent on the approval of the post emergence  
29 securitization, the approval of such securitization will improve the Utility's credit  
30 metrics, which will reduce the cost of financing over time for the benefit of all  
31 customers, and will provide for the acceleration of the deferred payment to the  
32 Fire Victim Trust for the benefit of individual wildfire victims and the other  
33 beneficiaries of that trust.

**TABLE 2.2: SOURCES**

<b>New Equity in PG&amp;E Corporation</b>	<b>\$15.75 billion</b>
New money equity raise	\$9 billion
Equity issued to Fire Victim Trust	\$6.75 billion
<b>New PG&amp;E Corporation Debt</b>	<b>\$4.75 billion</b>
<b>Reinstated Utility Debt</b>	<b>\$9.575 billion</b>
<b>New Utility Debt</b>	<b>\$23.775 billion</b>
Refinancing of Pollution Control Bonds	\$0.1 billion
Noteholder RSA debt	\$11.85 billion
New debt	\$5.825 billion
Temporary Utility Debt <sup>42</sup>	\$6 billion
<b>Insurance Proceeds</b>	<b>\$2.2 billion</b>
<b>Cash at Emergence</b>	<b>\$1.6 billion</b>
<b>Total Sources</b>	<b>\$57.65 billion</b>

**TABLE 2.3: USES**

<b>Fire Claims</b>	<b>\$24.15 billion<sup>43</sup></b>
<b>Contribution to Wildfire Fund</b>	<b>\$5 billion</b>
<b>Debtor-In-Possession Financing</b>	<b>\$2 billion</b>
<b>Prepetition Debt</b>	<b>\$22.18 billion</b>
<b>Trade Claims and Other Costs</b>	<b>\$2.3 billion</b>
<b>Accrued Interest</b>	<b>\$1.27 billion</b>
<b>Cash</b>	<b>\$0.75 billion</b>
<b>Total Uses</b>	<b>\$57.65 billion</b>

1                    Particularly with respect to the up to \$23.775 billion in new Utility long-  
2 term debt and the associated request for authorization for the Utility to issue  
3 and incur that indebtedness described below, PG&E anticipates the  
4 following uses of the long-term debt:

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<sup>42</sup> Temporary Utility Debt will be retired either in connection with the post-emergence securitization transaction or realization of shareholder NOLs. This may be short-term or long-term debt, as described in Section F.

<sup>43</sup> Does not include \$1.35 billion deferred payment to the Fire Victim Trust.

**TABLE 2.4: USES OF UP TO \$23.775 BILLION IN UTILITY LONG-TERM DEBT**

<b>Prepetition Utility Debt (Noteholder RSA Debt)</b>	<b>\$11.85 billion</b>
Prepetition Short-Term Debt Exchanged for Long-Term Debt	\$3.183 billion
<b>Refinancing of Pollution Control Bonds</b>	<b>\$0.1 billion</b>
<b>Refinancing of Debtor-In-Possession Facility</b>	<b>\$2 billion</b>
<b>Contribution to Wildfire Fund</b>	<b>\$2.5 billion</b>
<b>Fire Claims</b>	<b>\$6 billion</b>
<b>Accrued Interest, Trade Claims &amp; Other</b>	<b>\$1.325 billion</b>
<b>Total</b>	<b>\$23.775 billion</b>

## 1. Net Operating Losses

PG&E will obtain certain tax benefits, including Net Operating Losses (NOL), by deducting wildfire claims costs as business expenses on its income tax returns. Shareholders retain the benefit of NOLs that are generated by shareholder-paid costs;<sup>44</sup> here, because the costs of the wildfire claims will be borne by PG&E Corporation's shareholders, the NOLs arising from payment of wildfire claims costs will make available cash flows to shareholders that would have otherwise been used to pay income taxes.

## 2. Temporary Utility Debt

As described above, PG&E anticipates that \$6 billion in Temporary Utility debt would be used to pay wildfire claims. This portion of the Utility's debt would be paid off, if approved by the Commission, from the proceeds of a post-emergence rate-neutral \$7 billion securitization transaction. Alternatively, the \$6 billion would be retired with proceeds from

<sup>44</sup> See, e.g., D.84-05-036 (1984) ("Tax losses are assets that belong to the shareholders who are responsible for the expenses which created the tax loss, and thus are entitled to the related tax benefit"); D.14-08-032 (2014) ("[W]hen deductions are not part of utility cost of service but derive from shareholder funds, the deductions are the property of shareholders").

1 shareholders. PG&E plans to use cash flows from NOLs to support the \$6  
2 billion of Utility debt used to fund wildfire claims.<sup>45</sup>

3 **3. Settlement Agreement With Members of the Ad Hoc Committee of**  
4 **Senior Unsecured Noteholders and Resulting Interest Cost Savings**

5 On January 22, 2020 PG&E entered into a Restructuring Support  
6 Agreement (the Noteholder RSA) with members of the Ad Hoc Committee of  
7 Senior Unsecured Noteholders of the Utility that provides for certain  
8 modifications to PG&E's Plan regarding the treatment of claims related to  
9 Utility prepetition debt, and resolves a number of disputes between PG&E  
10 and the members of the Ad Hoc Committee. See Exhibit 2.5. PG&E also  
11 simultaneously entered into a related letter-agreement with certain  
12 consenting members of the Ad Hoc Committee which sets forth certain  
13 sensitive and confidential non-economic terms with respect to the parties'  
14 commitments regarding public and private communications about PG&E's  
15 Plan and the alternate plan of reorganization proposed by the Ad Hoc  
16 Committee. The changes resulting from the Noteholder RSA are reflected in  
17 the amended Plan PG&E filed in the Bankruptcy Court and in this  
18 proceeding on January 31, 2020. As a result of the Noteholder RSA, the  
19 Ad Hoc Committee has moved to withdraw its pleadings, including its  
20 competing plan of reorganization, and will cease participating in this  
21 proceeding before the Commission. Once the Noteholder RSA is approved  
22 by the Bankruptcy Court, the Ad Hoc Committee will formally withdraw its  
23 proposed plan of reorganization before the Bankruptcy Court.

24 Pursuant to the Noteholder RSA and as now contemplated by PG&E's  
25 Plan, the Utility will satisfy certain prepetition debt, namely high-coupon,  
26 long-dated senior notes, senior notes with near-term maturities, and funded  
27 bank debt (including revolving loans, term loans, and the pollution control  
28 bonds) with new lower-coupon Utility notes, with payment of prepetition  
29 interest at the contract rate and postpetition interest at the Federal

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<sup>45</sup> PG&E anticipates that the same would be true in the event the Commission approves a securitization transaction insofar as the incremental cash flow resulting from the wildfire-related NOLs would be available to support the securitization debt (without requiring an overall increase in customer rates). This monetization of the NOLs satisfies certain conditions under the equity backstop commitment letters.



Judgment Rate in cash. This satisfaction of prepetition Utility debt for newly issued debt totals approximately \$11.85 billion on terms defined in the agreement.<sup>46</sup> Other prepetition Utility long-term debt totaling approximately \$9.575 billion will be reinstated; this includes relatively low-coupon prepetition long-term debt for which refinancing would not have been cost-effective. The Utility will pay customary debt placement fees and reimbursements, including an underwriting fee for the newly issued debt.

**a. The Noteholder RSA Yields Significant Interest Rate Cost Savings**

The Noteholder RSA results in significant benefits for the Utility and its customers. By exchanging high-coupon prepetition long-term debt and reinstating relatively low-coupon prepetition long-term debt, PG&E anticipates that its Plan will yield significant savings associated with lower interest expenses for the Utility. Comparing the interest rates on the high-coupon prepetition long-term debt to the corresponding interest rates giving effect to the Noteholder RSA reduces the cost of the Utility's long-term debt by approximately \$1 billion. Additionally, the Noteholder RSA refinances prepetition short-term debt and near-term maturities that otherwise would have been financed with new debt. As a result, the Utility avoids underwriting fees on those amounts, resulting in approximately \$40 million in savings.

The projected annual savings in interest expense for the Utility associated with the Noteholder RSA benefit customers through the Utility's cost of debt and authorized capital structure. In A.19-04-015, the Utility "propose[d] to update its cost of debt for cost of capital purposes, for the period beginning after it emerges from bankruptcy to incorporate the costs of its exit financing, and the appropriate forward-looking forecast of debt costs for the remaining forecast period." D.19-12-056 at 13-14. Accordingly, any interest rate cost savings achieved as part of PG&E's Plan would be reflected in the Utility's authorized cost of long-term debt in conjunction with that update.

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<sup>46</sup> See U.S. Bankruptcy Court for the Northern District of California, Case No. 19-30088, ECF 5519, n.7. The Noteholder RSA as executed (Exhibit 2.6) shows a total of approximately \$11.95 billion. The correct amount, as reflected in PG&E's Plan, is \$11.85 billion.



1           **b. The Noteholder RSA Constitutes a Reasonable Resolution of the**  
2           **Disputes Between PG&E and the Ad Hoc Committee**

3           The Noteholder RSA is the product of substantial arms-length, good  
4           faith negotiations among sophisticated and well-represented parties. It  
5           encompasses a comprehensive settlement that resolves all disputes  
6           between PG&E and certain members of the Ad Hoc Committee  
7           (including the treatment of over \$21 billion in prepetition Utility debt and  
8           disputed claims of over \$5 billion for postpetition interest and make-  
9           whole premiums), while reducing the Utility's cost of long-term borrowing  
10          by over \$1 billion on a net present value basis. Prior to the agreement,  
11          the treatment of the Utility's prepetition notes was a major point of  
12          contention between PG&E and the Ad Hoc Committee before the  
13          Bankruptcy Court. PG&E's earlier Plan, as filed in the Bankruptcy Court  
14          and in this proceeding in December 2019, contemplated repaying the  
15          prepetition notes in full without a make-whole premium and, consistent  
16          with the Bankruptcy Court's recent decision, postpetition interest would  
17          accrue and be paid at the Federal Judgment Rate, not the contract rate.  
18          The Ad Hoc Committee argued that postpetition interest is payable at  
19          the contract rate, not the Federal Judgment Rate, and that make-whole  
20          or similar amounts would be due. These were hotly contested issues  
21          before the Bankruptcy Court and presented significant litigation risk for  
22          PG&E. Although the Bankruptcy Court decided the applicable  
23          postpetition interest rate in PG&E's favor, that decision is subject to  
24          appeal. If the Bankruptcy Court were to find in favor of the Ad Hoc  
25          Committee on the latter issue and that decision were upheld on appeal,  
26          PG&E would be forced either to reinstate the relevant prepetition debt or  
27          to pay substantial make-whole premiums associated with those claims,  
28          amounting to over \$5 billion in disputed claims. The agreement  
29          therefore constitutes a fair and reasonable resolution of those disputes  
30          in light of the litigation risk to PG&E.

31          In addition, the Noteholder RSA removes significant uncertainty and  
32          risks associated with PG&E's exit financing. First, the agreement  
33          provides for the reinstatement of \$9.575 billion in prepetition long-term  
34          debt and the issuance of an additional \$11.85 billion in new debt on

1 terms defined in the agreement in order to refinance the Utility's  
2 remaining prepetition long-term and short-term debt. As a result, PG&E  
3 will be required to raise significantly less new Utility debt in the market  
4 for emergence. Second, the Noteholder RSA defines the terms of  
5 \$11.85 billion in new Utility debt and provides for the reinstatement of  
6 \$9.575 billion, locking in interest rates for a substantial portion of the  
7 Utility's long-term debt—\$21.525 billion—well below the Utility's current  
8 authorized cost of debt. This removes any interest rate risk associated  
9 with that debt and, accordingly, the Utility recently moved to amend its  
10 request for interest rate hedging authorization in A.19-11-002.

11 Thus, the Noteholder RSA resolves the disputes between PG&E  
12 and certain members of the Ad Hoc Committee in a manner that  
13 eliminates the associated litigation risk to PG&E. The Noteholder RSA  
14 provides valuable certainty to PG&E and its customers with respect to  
15 exit financing, including by reducing market and interest-rate risk for a  
16 large portion of the Utility's long-term debt.

#### 17 **4. Capital Structure**

18 PG&E anticipates that the Utility will emerge from bankruptcy with a  
19 balanced capital structure that complies with the regulatory capital structure  
20 authorized in D.19-12-056 provided certain adjustments described below.<sup>47</sup>  
21 The Utility's most recent cost of capital Decision—19-12-056—set the  
22 authorized ratemaking capital structure as consisting of 52 percent common  
23 equity, 47.5 percent long-term debt, and 0.5 percent preferred equity. The  
24 Utility currently has less than 52 percent equity on its financial books,  
25 primarily because the liabilities associated with the 2017 and 2018 wildfires  
26 resulted in non-cash charges to equity on the Utility's balance sheet,  
27 although it is deemed in compliance while its application for a waiver of the  
28 capital structure condition is pending (A.19-02-016).

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<sup>47</sup> The adjustments described herein apply equally with respect to the ratemaking capital for purposes of the holding company conditions (see D.96-11-017 and D.19-12-056) as well as the affiliate transaction rules (see D.06-12-029 (Rule IX.B.)), including in connection with any dividends. Alternatively, the Commission could issue a waiver from compliance with the authorized capital structure as contemplated in A.19-02-016 for these same purposes.

1 To the extent claims are initially paid from cash proceeds of debt rather  
2 than shareholder equity, absent the adjustments described below the  
3 common equity ratio would not be fully restored until PG&E finally pays off  
4 that debt with cash from equity. Adjustments must also be made to reflect  
5 Wildfire Fund contributions. Thus, the Utility anticipates complying with the  
6 authorized capital structure upon emergence provided the following:

7 First, any debt used to finance the initial and annual contributions to the  
8 Wildfire Fund is to be excluded from measurement of the authorized capital  
9 structure. This debt is not used to finance assets in the Utility's rate base  
10 and should be excluded from the calculation of the capital structure.  
11 PG&E's Plan funding contemplates that the Utility would issue \$2.5 billion in  
12 long-term debt to fund its contributions to the Wildfire Fund. Accordingly,  
13 per § 3292(g) that amount will be excluded from the calculation of the  
14 regulatory capital structure. Also, any after-tax charges to earnings  
15 reflecting the amortization of the initial or ongoing contributions to the  
16 Wildfire Fund that are not financed with equity must be added back to the  
17 common equity balance.

18 Second, PG&E anticipates issuing Temporary Utility debt of \$6 billion to  
19 pay wildfire claims. This debt would also not be used to finance assets in  
20 the Utility's rate base and would be excluded from the calculation of the  
21 capital structure. PG&E is not requesting that the wildfire claims be  
22 recovered from customers, and those amounts would ultimately be paid by  
23 shareholders, even if initially financed with debt in whole or in part.  
24 Accordingly, debt issued to pay claims should be excluded from the  
25 calculation of the debt portion of the capital structure. Also, the amount of  
26 the book value of equity must be increased by the after-tax amount of the  
27 claims paid that are not financed with equity, which is also equal to the after-  
28 tax amount of the debt issued to pay the claims.

#### 29 **E. Raising the Plan Funding for Emergence**

30 When PG&E commenced the Chapter 11 reorganization proceedings,  
31 PG&E was facing extraordinary challenges resulting from the catastrophic  
32 wildfires of 2017 and 2018 in Northern California. By satisfactorily and  
33 expeditiously compensating wildfire victims and ensuring compliance with  
34 AB 1054 so that the Utility can participate in the Wildfire Fund upon emergence,

1 PG&E's Plan resolves the wildfire liabilities that resulted in PG&E's Chapter 11  
2 cases and thereby positions the Utility as financeable and financially healthy.  
3 Accordingly, PG&E is confident it will be able to raise the various components—  
4 both equity and debt—of the funding necessary for PG&E's Plan to become  
5 effective and to implement the Plan. However, my opinion assumes the  
6 Commission approves the Wildfire OII settlement currently under consideration  
7 in I.19-06-015. Other material adverse events may also impair PG&E's ability to  
8 raise capital for its emergence.

9 Under PG&E's Plan, the Utility expects to achieve investment grade ratings  
10 for secured debt upon emergence. The Utility also expects to have a clear path  
11 towards further improving its credit ratings over time. Such continued  
12 improvement will depend not only on PG&E's future operational and financial  
13 performance but also on constructive implementation of the new statutory and  
14 regulatory regime, including AB 1054, by the Commission, and the Utility's  
15 participation in the Wildfire Fund. Commission approval of the proposed  
16 \$7 billion post-emergence, rate-neutral securitization transaction would further  
17 improve the Utility's credit metrics. PG&E's Plan positions the Utility as  
18 financeable and financially healthy upon emergence. PG&E is confident that it  
19 will be able to attract the capital, both debt and equity, needed to fund PG&E's  
20 Plan and to maintain ready access to capital markets after emergence.

21 First, with regards to debt, the Noteholder RSA provides significant certainty,  
22 and committed financing on reasonable terms and conditions, for the vast  
23 majority of the Utility's long-term debt included in the Plan funding. The  
24 agreement provides for reinstatement of approximately \$9.575 billion of  
25 prepetition Utility long-term debt and approximately \$11.85 billion in newly  
26 issued Utility long-term debt. Thus, PG&E would need to raise only  
27 \$11.925 billion of the Utility debt component of the anticipated Plan funding for  
28 emergence. In addition, as described in Section F.4., PG&E also requests  
29 authorization from the Commission for up to \$11.925 billion in short-term  
30 authority, to the extent needed, for PG&E's exit financing, which includes  
31 authorization for the temporary Utility debt, the Bridge Facility and provides  
32 additional certainty that PG&E will be able to raise the debt required for  
33 emergence.

1 Second, PG&E is confident that it will be able to raise the equity  
2 components of the Plan funding. PG&E has obtained “backstop” commitments  
3 to ensure that sufficient funds at an acceptable price will be available when the  
4 Plan becomes effective, even if market conditions deteriorate. The equity  
5 “backstop” commitments demonstrate robust interest by investors to invest  
6 equity in PG&E Corporation and provide certainty that PG&E will have sufficient  
7 equity to consummate PG&E’s Plan for emergence. However, PG&E  
8 anticipates effectuating the equity issuance contemplated by PG&E’s Plan  
9 through market transactions in order to obtain the most favorable pricing and  
10 other terms.

11 A large number of parties have entered into Equity Backstop Commitment  
12 Letters, setting forth the terms and conditions to purchase up to \$12 billion in  
13 common stock of reorganized PG&E Corporation upon PG&E’s Plan becoming  
14 effective.<sup>48</sup> The terms of the Equity Backstop Commitment Letters afford PG&E  
15 significant flexibility. Although equity backstop commitment letters often require  
16 a debtor to consummate a particular type of equity offering—typically, a rights  
17 offering—the Equity Backstop Commitment Letters here provide PG&E with the  
18 flexibility to raise market-priced equity from other providers in the public and  
19 private markets while still ensuring that the capital will be available if those  
20 offerings are not consummated timely. Accordingly, PG&E is confident that it  
21 will be able to secure the equity components of the Plan funding for emergence,  
22 whether through an offering in the market or under the Equity Backstop  
23 Commitment Letters.

24 PG&E also is confident that it will maintain ongoing access to equity markets  
25 post-emergence. As described further in Ch. 3 and as evidenced by the Equity  
26 Backstop Commitment Letters, there is substantial investor demand for equity in  
27 utility companies generally and in PG&E Corporation in particular. PG&E also  
28 anticipates an investment-grade credit profile and a path to improving its credit  
29 ratings post-emergence.

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<sup>48</sup> U.S. Bankruptcy Court for the Northern District of California, Case No. 19-30088, ECF 5267.

1 **F. Financing Authorizations for Exit and Post-Emergence**

2 In order for PG&E to consummate the exit financing and fund its Plan, the  
3 Utility needs authorization from the Commission pursuant to, *inter alia*,  
4 Pub. Util. Code §§ 818, 823 and 851 to issue the contemplated long-term and  
5 short-term debt. Specifically, PG&E requests authorization (1) to issue  
6 approximately \$11.85 billion in long-term debt as contemplated by the  
7 Noteholder RSA and according to the terms described therein; (2) up to  
8 \$11.925 billion<sup>49</sup> in additional long-term debt to finance PG&E's Plan and  
9 subsequent exit from Chapter 11, (3) up to \$6 billion in short-term debt authority  
10 for the Utility's working capital and short-term debt needs for exit from  
11 Chapter 11 and on-going working capital and short-term needs and  
12 contingencies after exit; and (4) authorization of up to \$11.925 billion in  
13 short-term debt to temporarily finance PG&E's exit from Chapter 11 which would  
14 be refinanced with the long-term debt already described in (2) and/or in  
15 connection with PG&E's anticipated request for a securitization transaction.

16 PG&E requests long-term and short-term debt authorization in this  
17 proceeding as opposed to a separate application given the direction in  
18 Administrative Law Judge Allen's December 27, 2019 Ruling Modifying  
19 Schedule. The December 27, 2019 Ruling stated that, "[b]ased on the  
20 understanding that the long-term debt at issue is integral to the plan of  
21 reorganization being considered in this proceeding, complies with all other  
22 requirements for issuance of debt, and does not require a separate financing  
23 order, PG&E should request approval of the long-term debt in this proceeding."  
24 December 27, 2019 Ruling at 4-5. While this direction pertained most  
25 immediately to long-term debt, as discussed further below, short-term debt  
26 authorization is equally critical to PG&E's exit financing and successful  
27 emergence from Chapter 11.

28 Requests (1), (2), and (4) described above relate directly to the  
29 contemplated exit financing for PG&E's Plan funding, amounting to up to  
30 \$23.775 billion in new debt by the Utility (apart from the approximately

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49 \$11.925 billion is PG&E's current estimate and, to the extent this estimate changes based on any subsequent modifications to PG&E's Plan or other developments, PG&E may update or amend this request. This amount also includes \$100 million for the refinancing of Pollution Control Bonds.

1 \$9.575 billion in prepetition Utility debt that PG&E anticipates reinstating).<sup>50</sup>

2 The anticipated uses of that long-term debt as part of PG&E's exit financing are  
3 reflected in Table 2.4 and discussed further below.

4 In addition to the request for PG&E's exit financing, PG&E also requests  
5 authorization for the Utility to incur up to \$6 billion in short-term debt to fund  
6 increased short-term capital requirements and general working capital  
7 requirements, and in connection with potential contingencies. This represents a  
8 \$2 billion increase to the Utility's \$4 billion short-term debt authorization that was  
9 in place prior to its Chapter 11 filing. See D.09-05-002. PG&E anticipates  
10 exercising a portion of this authorization for the placement of short-term working  
11 capital facilities immediately upon the effectiveness of PG&E's Plan. First, a  
12 credit facility for general working capital, when PG&E emerges and no longer  
13 has access to the debtor-in-possession financing, is a critical factor for PG&E's  
14 credit ratings.

15 Second, PG&E's \$6 billion short-term request would be available for  
16 potential post-emergence needs. Such needs and contingencies include:

- 17 • Finance under-collections in balancing accounts
- 18 • Delays in recovery of certain incurred costs
- 19 • Collateral posting requirements associated with the Utility's business  
20 and energy procurement activities
- 21 • Cyclical fluctuations in seasonal cash flows, or
- 22 • Other unexpected events.

23 Specifically, memorandum accounts typically allow cost recovery only after  
24 costs have been incurred and recorded into the accounts, and then  
25 subsequently approved by the Commission through an application. There can  
26 be a substantial period between when costs are incurred, and when those costs  
27 ultimately are recovered in rates. Such unrecovered balances are usually  
28 financed with short-term debt. In recent years the total amount of unrecovered  
29 balances in PG&E's memorandum accounts, the net under-collections in various  
30 balancing accounts, and the time delay between when costs are incurred and

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<sup>50</sup> While PG&E's request in this proceeding concerns financing authorizations to enable PG&E to exit from Chapter 11 and to meet its short-term working capital needs and contingencies immediately upon emergence, PG&E also anticipates filing a separate request for long-term financing authorization to address PG&E's post-emergence long-term financing needs.



1 recorded and subsequently recovered in rates (if approved) have increased  
2 substantially, increasing PG&E's need for short-term debt authorization.  
3 Additionally, PG&E anticipates higher collateral posting requirements associated  
4 with PG&E's business and energy procurement activities when compared to pre-  
5 Chapter 11 filing.

6 Prior to PG&E's Chapter 11 filing, through D.04-10-037, as modified by  
7 D.05-04-023, D.06-11-006 and D.09-05-002, the Commission authorized PG&E  
8 to incur up to \$4.0 billion of short-term debt<sup>51</sup> for working capital fluctuations and  
9 energy procurement-related purposes (including, without limitation, collateral  
10 posting requirements). In this proceeding, PG&E requests a total short-term  
11 debt authorization of up to \$6 billion that would supersede its prior short-term  
12 debt authorizations. See D.04-10-037, *as modified by* D.05-04-023,  
13 D.06-11-006 and D.09-05-002. This total amount also is consistent with the total  
14 amount PG&E requested in A.18-10-003, which was filed on October 9, 2018  
15 before PG&E filed for Chapter 11,<sup>52</sup> and is similar to the \$2 billion increase for a  
16 total of \$4 billion in short-term debt authorization recently granted to Southern  
17 California Edison. See D.19-09-008. Since PG&E's short-term debt request in  
18 this proceeding would supersede its prior authorizations, PG&E proposes to pay  
19 Commission fees on only the net difference in total authorization, i.e., \$2 billion.  
20 See Exhibit 2.3 (showing prior authorizations) and 2.9 (calculating fees).

21 **1. Description of the \$11.85 Billion in Long-Term Debt Securities**  
22 **Contemplated by the Noteholder RSA**

23 PG&E requests authorization for the Utility to issue, sell and deliver or  
24 otherwise incur approximately \$11.85 billion in long-term debt consistent  
25 with the terms of the Noteholder RSA, as shown in Exhibits 2.5-2.7.<sup>53</sup> In  
26 particular, PG&E requests authorization for the following types of long-term

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<sup>51</sup> Historically, the Commission has expressed PG&E's authorized short-term debt as an authorized amount including amounts allowed by Public Utilities Code § 823(c) (i.e., 5 percent of the par value of PG&E's outstanding long-term securities).

<sup>52</sup> In a decision dated January 28, 2019 and issued January 30, 2019 in that proceeding, the Commission exempted PG&E's Debtor-In-Possession financing from Commission approval and closed that proceeding. See D.19-01-025; see *also* D.19-01-026.

<sup>53</sup> See U.S. Bankruptcy Court for the Northern District of California, Case No. 19-30088, ECF 5519, n.7. The Noteholder RSA as executed (Exhibit 2.6) shows a total of approximately \$11.95 billion. The correct amount, as reflected in PG&E's Plan, is \$11.85 billion.



1 debt securities described below and on the terms described below  
2 (collectively, and together with the other long-term and short-term debt  
3 securities described below, “Debt Securities”).

4 **a. New Utility Funded Debt Exchange Notes**

5 The Utility may issue, collectively, (1) \$1,949 million in new senior  
6 secured notes bearing interest at the rate of 3.15 percent, maturing on  
7 the 66 month anniversary of the Effective Date of PG&E’s Plan, and  
8 otherwise having the same terms and conditions as the Reference  
9 Medium-Term Senior Note Documents<sup>54</sup> shown in Exhibit 2.6; and  
10 (2) \$1,949 million in new senior secured notes bearing interest at the  
11 rate of 4.50 percent, maturing on the anniversary of the Effective Date of  
12 PG&E’s Plan in 2040, and otherwise having the same terms and  
13 conditions as the Reference Long-Term Senior Note Documents shown  
14 in Exhibit 2.7.<sup>55</sup>

15 **b. New Utility Long-Term Notes**

16 The Utility may issue, collectively, (i) \$3.1 billion in new senior  
17 secured notes bearing interest at the rate of 4.55 percent, maturing on  
18 the anniversary of the Effective Date of PG&E’s Plan in 2030, and  
19 otherwise having the same terms and conditions as the Reference  
20 Long-Term Senior Note Documents shown in Exhibit 2.7; and (ii)  
21 \$3.1 billion in new senior secured notes bearing interest at the rate of  
22 4.95 percent, maturing on the anniversary of the Effective Date of  
23 PG&E’s Plan in 2050, and otherwise having the same terms and  
24 conditions as the Reference Long-Term Senior Note Documents shown  
25 in Exhibit 2.7.

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<sup>54</sup> These reference documents are described in the Noteholder RSA as the “Reference Short-Term Senior Note Documents.” They are referred to as Reference Medium-Term Senior Note Documents herein to minimize confusion since the term of the New Utility Funded Debt Exchange Notes is longer than one year, meaning they are considered long-term debt not short-term debt for purposes of the Public Utilities Code.

<sup>55</sup> See U.S. Bankruptcy Court for the Northern District of California, Case No. 19-30088, ECF 5519, n.7. The Noteholder RSA as executed (Exhibit 2.6) shows \$1,999 million as the amounts for the New Utility Funded Debt Exchange Notes. PG&E’s Plan shows the correct amount of \$1,949 million.

1           **c. New Utility Medium-Term Notes<sup>56</sup>**

2           The Utility may issue, collectively, (i) \$875 million in new senior  
3           secured notes bearing interest at the rate of 3.45 percent, maturing on  
4           the anniversary of the Effective Date of PG&E's Plan in 2025, and  
5           otherwise having the same terms and conditions as the Reference  
6           Medium-Term Senior Note Documents shown in Exhibit 2.6; and  
7           (ii) \$875 million in new senior secured notes bearing interest at the rate  
8           of 3.75 percent, maturing on the anniversary of the Effective Date of  
9           PG&E's Plan in 2028 and otherwise having substantially similar terms  
10          and conditions as the Reference Medium-Term Senior Note Documents  
11          shown in Exhibit 2.6.

12          **2. Description of Long-Term Debt Securities for the Issuance of up to**  
13          **\$11.925 Billion in Long-Term Debt for Exit**

14          PG&E additionally requests authorization to issue, sell and deliver or  
15          otherwise incur up to \$11.925 billion in long-term debt to finance PG&E's  
16          Plan and subsequent exit from Chapter 11. In connection with this request,  
17          PG&E seeks authorization to issue the various types of long-term debt  
18          securities described below (collectively, and together with the short-term  
19          debt securities described below, "Debt Securities").

20          **a. Secured Debt Securities**

21          PG&E and/or an affiliate may issue secured Debt Securities, which  
22          generally are expected to be first and refunding mortgage bonds under a  
23          mortgage trust indenture ("Trust Indenture"), but may include other  
24          forms of secured debt securities (collectively, "Secured Debt  
25          Securities"). Secured Debt Securities may be sold in one or more public  
26          offerings or in one or more private placements.<sup>57</sup> Secured Debt  
27          Securities may be sold to underwriters which in turn will offer the  
28          Secured Debt Securities to investors, or may be sold directly to

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56 These notes are described in the agreement with the Noteholder RSA as "New Utility Short-Term Notes." They are referred to as Medium-Term Notes herein to minimize confusion since their term is longer than one year, meaning they are considered long-term debt, not short-term debt, for purposes of the Public Utilities Code.

57 Bonds sold in private placements may contain provisions for subsequent public registration.

investors either with or without the assistance of a placement agent. Secured Debt Securities may also be delivered in connection with the issuance of other debt instruments as described in Section F.6. The offering of Secured Debt Securities may be registered with the Securities and Exchange Commission (SEC), depending on the method of offering and sale, and the Secured Debt Securities may be listed on a stock exchange. Because any such Secured Debt Securities would be an encumbrance on the Utility's utility properties under a Trust Indenture, as described further in Section F.5., PG&E requests authorization under Pub. Util. Code § 851 to mortgage and encumber utility property.

**b. Unsecured Debt Securities**

PG&E and/or an affiliate may issue unsecured Debt Securities as bonds, debentures, notes, trust preferred securities, or other evidences of indebtedness in one or more public offerings or in one or more private placements.<sup>58</sup> Unsecured Debt Securities (consistent with financial marketplace terminology, collectively referred to herein as "notes") would not be secured by specific properties of PG&E, but may be issued under trust indentures. Notes may be sold to underwriters which in turn will offer the unsecured Debt Securities to investors, or may be sold directly to investors either with or without the assistance of a placement agent. PG&E may also issue debentures or other unsecured Debt Securities directly or as part of an issuance of trust preferred securities. In such an issuance, PG&E may create a subsidiary in the form of a trust that would issue preferred securities to the public. The preferred securities would represent an interest in the debentures issued by PG&E to the trust and would also be guaranteed by PG&E. The offering of notes may be registered with the SEC, depending on the method of offering and sale, and the notes may be listed on a stock exchange.

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<sup>58</sup> Bonds sold in private placements may contain provisions for subsequent public registration.

1           **c. Direct Loans**

2           PG&E anticipates that from time to time it may be advantageous to  
3           borrow directly from financial institutions such as banks, insurance  
4           companies, or other financial lenders. PG&E and/or an affiliate  
5           generally would enter into such loans when the loans were designed to  
6           result in an overall cost of money lower than that available through the  
7           issuance of other forms of Debt Securities or when necessary as an  
8           interim arrangement or for other reasons. Such loans could be either  
9           secured (including through a first mortgage bond structure) or  
10          unsecured.

11          **d. Accounts Receivable Financing**

12          PG&E may obtain financing through the issuance of Debt Securities  
13          secured by a pledge, sale, or assignment of its accounts  
14          receivable. See Section VI.C. below for a discussion of accounts  
15          receivable financing in connection with PG&E's request for authority  
16          pursuant to Pub. Util. Code § 851.

17      **3. Proposed Uses of Long-Term Debt Proceeds**

18          Pub. Util. Code § 817 authorizes the issuance of long-term debt for  
19          specific purposes, including, *inter alia*, "(d) [f]or the discharge or lawful  
20          refunding of its obligations;" "(f) [f]or the reorganization or readjustment of its  
21          indebtedness or capitalization upon a merger, consolidation, or other  
22          reorganization;" "(g) [f]or the retirement of or in exchange for one or more  
23          outstanding stocks or stock certificates or other evidence of interest or  
24          ownership of such public utility, or bonds, notes, or other evidence of  
25          indebtedness of such public utility, with or without the payment of cash;" and  
26          "(h) [f]or the reimbursement of moneys actually expended from income or  
27          from any other money in the treasury of the public utility not secured by or  
28          obtained from the issue of stocks or stock certificates or other evidence of  
29          interest or ownership, or bonds, notes, or other evidences of indebtedness  
30          of the public utility, for any of the aforesaid purposes ... ." Pub. Util. Code  
31          § 817(d), (f)-(h); see, e.g., D.02-11-030 at 5-6.

32          As already detailed in Table 2.4, PG&E proposes to use the proceeds  
33          from the Utility's issuance of the long-term debt authorized in this

proceeding for the aforementioned purposes permitted by § 817 and any others, other than for payment of accrued interest, if any, and after payment or discharge of obligations incurred for expenses incident to their issue and sale. In connection with these proposed uses, PG&E also requests authorization pursuant to Pub. Util. Code § 823(d) to use a portion of the long-term debt requested herein to refund pre-petition short-term debt (as reflected in Table 2.4) and, if applicable, to refund the additional \$11.925 billion short-term debt request described below in Section F.4.

#### 4. Description of Short-Term Debt Securities for Exit and Post-Emergence

PG&E requests two different short-term debt authorizations.<sup>59</sup> First, PG&E requests authority to issue, sell and deliver or otherwise incur up to \$6 billion in short-term debt authority for the Utility's working capital and short-term debt needs for exit from Chapter 11 and on-going working capital and short-term needs and contingencies after exit. Consistent with PG&E's prior short-term debt authorizations, see D.04-10-037, *as modified by* D.05-04-023, D.06-11-006 and D.09-05-002, and as described in greater detail below, PG&E requests authorization to issue various types of short-term debt securities, including direct loans, revolving credit facilities, term loan facilities and letter of credit facilities, accounts receivable financing, commercial paper, and extendible commercial notes. Credit facilities for these purposes may be established through several types of structures, the most typical being bank revolving loan (including Letters of Credit (LOC)) and term loan facilities, and customer accounts receivable financing. There are a variety of structures involving customer accounts receivable financing, including structures in which the receivables are the collateral against which borrowings or LOCs can be drawn, or the receivables are sold to a third party that then uses the receivables as collateral for borrowings and LOCs. In this latter structure, the transaction is structured as a true sale for bankruptcy purposes and debt for financial reporting and tax purposes. Credit facilities typically involve multi-year agreements. Since borrowings under these facilities are intended to manage variations in short-term cash

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<sup>59</sup> See Exhibit 2.3 (showing the requested short-term debt authorization in excess of the amount allowed pursuant to Public Utilities Code § 823(c)).

1 flow, and not as a permanent source of financing for long-term assets such  
2 as rate base, consistent with past practice<sup>60</sup> PG&E proposes to treat all  
3 such borrowings as short-term debt for ratemaking purposes, which will be  
4 excluded from PG&E's ratemaking capital structure.

5 PG&E expects to implement one or more of the structures described in  
6 order to optimize the terms and amount of credit facilities and to ensure  
7 adequate short-term liquidity. Any such credit facilities could be secured or  
8 unsecured.

9 Second, to provide flexibility for the Utility's exit financing, PG&E  
10 requests authority for the Utility to issue, sell and deliver or otherwise incur  
11 up to \$11.925 billion in short-term debt to temporarily finance PG&E's exit  
12 from Chapter 11 which, in the event this authorization is used, would be  
13 subsequently refinanced with the long-term debt already described in  
14 Section VI.B. or in connection with the rate-neutral securitization  
15 transaction.<sup>61</sup> Indeed, since PG&E will file a separate application seeking  
16 authorization for a rate-neutral, post-emergence securitization transaction,  
17 the proceeds of which would be used to refinance \$6 billion of Utility debt  
18 used to pay wildfire claims and accelerate payment under the Plan of \$1.35  
19 billion owed to victims in 2021 and 2022, it may make sense for the Utility to  
20 initially use \$6 billion in short-term, not long-term, debt for this purpose.  
21 Similarly, PG&E could use short-term as opposed to long-term debt should  
22 capital market conditions require the issuance of the former. Thus,  
23 approving this authorization for up to \$11.925 billion in short-term debt in  
24 connection with PG&E's exit financing will provide helpful flexibility to adapt  
25 to the circumstances at exit.

26 To be clear, this short-term request for up to \$11.925 billion would serve  
27 as a temporary replacement for the requested authorization of up to \$11.925  
28 billion in long-term debt (or the securitization transaction), such that the  
29 aggregate amount of debt under both authorizations requested herein  
30 (short-term and long-term) would not exceed \$11.925 billion. PG&E further

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<sup>60</sup> E.g., D.04-10-037 at 12.

<sup>61</sup> As with PG&E's long-term debt request, this short-term debt authorization request may be updated or amended based on subsequent modifications to PG&E's Plan or other developments.

1 recognizes that, after funding its Plan and emerging, any portion of this  
2 \$11.925 billion short-term request not used for its exit financing would lapse.

3 **a. Direct Loans**

4 PG&E anticipates that from time to time it may be advantageous to  
5 borrow directly from financial institutions such as banks, insurance  
6 companies, or other financial lenders. PG&E generally would enter into  
7 such loans only when the loans were designed to result in an overall  
8 cost of money lower than that available through the issuance of other  
9 forms of Debt Securities or when necessary to as an interim  
10 arrangement or for other reasons. Such loans could be either secured  
11 (including through a first mortgage bond structure) or unsecured.

12 **b. Revolving Credit and Letter of Credit Facilities**

13 PG&E may enter into revolving credit facilities and letter of credit  
14 facilities with financial institutions such as banks or other financial  
15 lenders. These facilities may be used to for direct borrowings, letter of  
16 credit issuance, or as a backstop for commercial paper, among other  
17 uses. Any such revolving credit and letter of credit facilities could be  
18 secured (including through a first mortgage bond structure) or  
19 unsecured.

20 **c. Accounts Receivable Financing**

21 PG&E may obtain financing through the issuance of Debt Securities  
22 secured by a pledge, sale, or assignment of its accounts  
23 receivable. See Section F.5. below for a discussion of accounts  
24 receivable financing in connection with PG&E's request for authority  
25 pursuant to Pub. Util. Code § 851.

26 **d. Commercial Paper and Extendible Commercial Notes**

27 If PG&E's credit rating sufficiently improves such that it can re-enter  
28 the commercial paper market, PG&E may issue Short-Term Debt  
29 Securities as commercial paper, including the refunding or rolling over of  
30 previously issued commercial paper. The commercial paper may be  
31 sold privately or publicly in the domestic or foreign capital markets. The  
32 commercial paper may be sold through placement agents which market  
33 commercial paper on a reasonable efforts basis or may be sold directly



1 to investors. Although it may issue commercial paper without separate  
2 liquidity support if possible and cost-effective to do so, PG&E anticipates  
3 it or an affiliate (acting at PG&E's direction) will arrange a credit  
4 agreement with banks or other financial institutions to provide liquidity  
5 support for the commercial paper indebtedness. PG&E or its affiliate  
6 may from time to time make modifications to the credit agreement terms  
7 and conditions. In addition, one or more new financial institutions may  
8 be added to or substituted for institutions initially participating in the  
9 credit agreement, and one or more of these institutions may be removed  
10 or have their respective percentage participation adjusted. At the  
11 expiration of the credit agreement, PG&E or its affiliate may renew or  
12 replace it. To the extent that commercial paper is backed by a credit  
13 facility, to avoid double counting the commercial paper and contingent  
14 support facilities associated with such paper, the commercial paper  
15 issued would be counted against available short-term debt authorization,  
16 and any supporting credit facility would not be counted against the  
17 authorization requested hereunder. The cost of commercial paper will  
18 include the effective yield plus any expenses associated with issuing  
19 commercial paper. These expenses include, but are not limited to,  
20 dealer commissions, issuing and paying agent fees, and credit  
21 agreement fees. PG&E may also issue extendible commercial notes,  
22 which are very similar to commercial paper but do not necessarily  
23 require the support of a credit agreement. Generally, the notes would  
24 be issued with a maturity of less than 364 days, but at maturity they may  
25 be extended for a period in excess of one year if not paid or remarketed.  
26 Nonetheless, and consistent with D.09-05-002, D.04-10-037 and  
27 D.00-04-057, extendible commercial notes would be treated for all  
28 purposes as short-term debt.

29 **e. Bridge Facility**

30 PG&E requests approval of its Bridge Facility in connection with its  
31 second short-term debt request described above. On October 11, 2019,  
32 PG&E entered into commitment letters with various banks, including  
33 JPMorgan Chase Bank, N.A., Bank of America, N.A., BofA Securities,  
34 Inc., Barclays Bank PLC, Citigroup Global Markets Inc., Goldman Sachs



1 Bank USA, and Goldman Sachs Lending Partners LLC, to provide a  
2 \$27.35 billion senior secured bridge loan facility (the “Bridge Facility”) to  
3 PG&E.<sup>62</sup> The Bridge Facility would be secured by substantially all of  
4 PG&E’s assets and would mature 364 days after any funding of the  
5 facility. PG&E’s obligations under the commitment letters remain  
6 contingent on Bankruptcy Court approval and, of course, any funding of  
7 the Bridge Facility would require authorization from the Commission as  
8 requested herein. In light of the subsequent amendments to PG&E’s  
9 Plan in the intervening months and, in particular, the Noteholder RSA,  
10 PG&E has entered into a reduced Bridge Facility in the amount of  
11 \$5.825 billion on comparable terms.<sup>63</sup> The Bridge Facility is committed  
12 financing, which funding provides significant certainty to PG&E even if  
13 debt market conditions deteriorate.

#### 14 **5. Section 851 Authorization For Secured Debt**

15 PG&E requests authority under Pub. Util. Code § 851 to encumber utility  
16 property in connection with the short- and long-term debt securities already  
17 described. Specifically, PG&E requests authority to secure the  
18 aforementioned debt securities by (1) a mortgage on the Utility’s property,  
19 including by issuing collateral mortgage bonds or first mortgage bonds; (2) a  
20 pledge of the Utility’s accounts receivable, including related collateral  
21 pledged under accounts receivable facilities, such as (a) security interests  
22 securing payment of such accounts receivable, (b) guarantees, LOCs, LOC  
23 rights, supporting obligations, insurance and other agreements or  
24 arrangements supporting the payment of such accounts receivable,  
25 (c) service contracts and other agreements associated with such accounts  
26 receivable, (d) records related to such accounts receivable, and/or  
27 (e) proceeds of any of the foregoing; and/or (3) a lien on the Utility’s property  
28 or another credit enhancement arrangement. With respect to accounts  
29 receivable financing, debt securities are secured by a pledge, sale, or  
30 assignment of the Utility’s customer accounts receivable. PG&E anticipates

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<sup>62</sup> See PG&E and PG&E Corporation, 8-K (Oct. 15, 2019).

<sup>63</sup> See Exhibit 2.8. Depending on the circumstances, PG&E also could seek to increase the amount of the Bridge Facility up to the full amount of the \$11.925 billion in requested short-term authorization.

1 that the transactions comprising an accounts receivable financing would be  
2 structured to be a true sale for bankruptcy purposes and debt for financial  
3 reporting and tax purposes, although other structures may be developed  
4 using accounts receivable as security or collateral. Should any such  
5 transaction be structured whereby the Utility does not act as servicer of the  
6 accounts receivable facility, PG&E may be required to enter a performance  
7 guaranty to serve as guarantor of the performance of the obligations of the  
8 servicer and hereby requests authorization to do so. The Utility also seeks  
9 authorization to execute and deliver one or more indentures or supplemental  
10 indentures, mortgages, security agreements, pledge agreements and such  
11 other collateral documents or instruments to secure the Debt Securities  
12 authorized by the Commission in this proceeding.

## 13 **6. Features to Enhance Debt Securities**

14 PG&E hereby requests authorization to include at its discretion one or a  
15 combination of the following additional features in PG&E or affiliate Debt  
16 Securities. Such features will be used as appropriate to improve the terms  
17 and conditions of the Debt Securities and to lower PG&E's overall cost of  
18 financing for the benefit of customers.

### 19 **a. Credit Enhancements**

20 PG&E may obtain credit enhancements for Debt Securities, such as  
21 LOCs, standby bond purchase agreements, surety bonds or insurance  
22 policies, or other credit support arrangements. Such credit  
23 enhancements may be included to reduce interest costs or improve  
24 other credit terms, and the cost of such credit enhancements would be  
25 included in the cost of the Debt Securities. PG&E may also provide  
26 mortgage security as a form of credit enhancement for Debt Securities.  
27 Debt used as credit enhancement would not count against the amount  
28 of debt authorized under this proceeding as long as there was no  
29 possibility that such credit enhancements would ever increase the  
30 amount of PG&E's debt obligations (see D.08-10-013).

### 31 **b. Redemption Provisions**

32 Each issue of Debt Securities may contain a provision allowing it to  
33 be redeemed or repaid prior to maturity. An early redemption provision

1           may allow the Debt Securities to be redeemed or repaid at any time, or it  
2           may allow the Debt Securities to be redeemed or repaid only after a  
3           certain period. In either case, the Debt Securities would be redeemable  
4           at par, at a premium over par, or at a stated price.

**PACIFIC GAS AND ELECTRIC COMPANY**  
**CHAPTER 3**  
**ABILITY TO RAISE CAPITAL POST-EMERGENCE**  
**(SCOPING MEMO ISSUES 4.3, 4.6, 4.7)**

PACIFIC GAS AND ELECTRIC COMPANY  
CHAPTER 3  
ABILITY TO RAISE CAPITAL POST-EMERGENCE  
(SCOPING MEMO ISSUES 4.3, 4.6, 4.7)

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**PACIFIC GAS AND ELECTRIC COMPANY**  
**CHAPTER 3**  
**ABILITY TO RAISE CAPITAL POST-EMERGENCE**  
**(SCOPING MEMO ISSUES 4.3, 4.6, 4.7)**

**A. Executive Summary**

This chapter describes Pacific Gas and Electric Company's (PG&E or the Company) credit position and access to capital after emergence under PG&E's Plan of Reorganization (PG&E Plan or Plan). In sum, reorganized PG&E will have the ability to raise adequate capital post-emergence.

Specifically, reorganized PG&E will be able to access the investment grade debt market. Based on the combination of PG&E's utility business risk profile, investment grade credit ratios and first mortgage bond structure, I expect the Company to achieve investment grade bond ratings on a secured basis.

Reorganized PG&E also will be able to access the equity capital markets. The equity needed for PG&E's Plan is provided by the backstop. But after emergence from Bankruptcy (BK), assuming constructive regulatory application of Assembly Bill (AB) 1054, I believe PG&E should have ongoing access to equity markets.

PG&E's improved wildfire risk position with the passage of AB 1054, and the Company's ongoing safety and system hardening initiatives will be attractive to both debt and equity investors. Additionally, the Company's improving credit profile, strong growth and favorable regulatory framework are important positive factors that will attract debt and equity capital to the Company.<sup>1</sup>

**B. Witness Introduction**

My name is John Plaster. I am a Managing Director and Head of Power and Utilities, Americas at Barclays. I was previously a Managing Director at Lehman Brothers. I have over 20 years of investment banking experience working extensively with regulated utilities, Independent Power Producers, and renewable energy companies across a wide spectrum of disciplines, including financial advisory, equity and equity-linked finance, high grade and high yield

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<sup>1</sup> My opinion regarding the Company's ability to raise capital for its emergence from Chapter 11, and for its post-exit needs, assumes the absence of material adverse events.

1 debt finance, structured finance, restructuring and commodities. I have a Juris  
2 Doctorate degree from Vanderbilt University Law School, Order of the Coif, and  
3 Bachelor of Arts in Economics, cum laude, from Wabash College.

4 Barclays is one of the lead lenders for the debtor-in-possession (DIP) facility  
5 that PG&E put in place during its Chapter 11 process. Additionally, Barclays is  
6 one of the lead underwriters of PG&E's committed exit financing. We reviewed  
7 and analyzed PG&E's financial model, including a review of the key assumptions  
8 underlying the model. Our decision to participate in the DIP financing and  
9 underwrite the exit financing reflects the fact that we were satisfied with the  
10 quality of PG&E's modeling. In addition, in connection with this testimony, I  
11 have also reviewed PG&E's more current financial model, and I have reviewed  
12 preliminary and confidential estimated credit metrics for PG&E post-emergence  
13 from BK. I am familiar with a substantial body of the publicly available  
14 information about the pertinent equity and debt markets discussed in  
15 this testimony.

16 **C. Reorganized PG&E Will Be Able to Access the Investment Grade Debt**  
17 **Market**

18 **1. Credit Ratings for Utility Debt**

19 An important factor in a company's ability to access debt markets  
20 is its credit rating. Credit rating agencies assign a corporate credit  
21 rating to a utility based on numerous factors, primarily business risk and  
22 financial leverage.

23 *Business Risk.* The rating agencies take slightly different approaches  
24 but particularly consider the underlying stability of the business's cash flows.  
25 Utilities generally measure well in this regard: They have stable cash flows  
26 generated by revenues from monopoly franchises for the generation,  
27 storage, transmission and distribution of electricity, heat and/or gas from  
28 facilities that they own or operate.

29 The rating agencies also give significant weight to the regulatory  
30 environment in determining a company's business risk. For utilities, the  
31 regulatory framework has a significant bearing on a utility's financial  
32 performance. As such, rating agencies consider the transparency,  
33 predictability, and consistency of the regulatory framework; the recoverability

of costs; timeliness of cost recovery; flexibility to allow for recovery of unexpected costs; and attractiveness of the framework to attract long-term capital, among other factors.<sup>2</sup> Accordingly, in determining a utility's competitive position, Standard & Poor's Global Ratings (S&P) weighs "regulatory advantage" at 60 percent.<sup>3</sup> Moody's Investors Service (Moody's) bases 25 percent of its rating on an evaluation of the regulatory framework and another 25 percent on the ability to recover costs and earn returns.<sup>4</sup>

*Financial Leverage.* A company's ability to repay debt depends in part on its expected future cash flows from operations, which is usually characterized as funds from operations (FFO) for the utility sector. Rating agencies look to certain leverage metrics—in particular, the relationship between FFO and a company's total debt and debt-equivalents (e.g., FFO-to-debt ratio),<sup>5</sup> and significantly weigh this ratio in determining the financial risk profile of a utility.<sup>6</sup>

Rating methodologies consider the combination of business risk and financial leverage. A weaker business risk profile will allow for lower leverage, whereas a stronger business risk profile will permit higher leverage, at the same credit rating.

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<sup>2</sup> S&P Global Ratings, *Key Credit Factors for the Regulated Utilities Industry* ("S&P Key Credit Factors"), p. 6–7 (January 22, 2016).

<sup>3</sup> S&P *Key Credit Factors*, p. 6.

<sup>4</sup> Moody's, *Regulated Electric and Gas Utilities* (June 23, 2017), at p. 4. Regarding regulatory framework, Moody's explains that 12.5 percent of a utility's rating is based on "Legislative and Judicial Underpinnings" and 12.5 percent is based on "Consistency and Predictability of Regulation." Regarding ability to recover costs and earn returns, Moody's states that 12.5 percent of a utility's rating is based on "Timeliness of Recovery of Operating and Capital Costs" and 12.5 percent is based on "Sufficiency of Rates and Returns." *Ibid.*

<sup>5</sup> S&P Global Ratings, *Corporate Methodology* (November 19, 2013), at p. 68. S&P defines "Funds from operations (FFO)" as "a hybrid cash flow measure that estimates a company's inherent ability to generate recurring cash flow from its operations independent of working capital fluctuations"; see also Moody's, *Regulated Electric and Gas Utilities* (June 23, 2017), at p. 20. Similarly, Moody's defines "CFO pre-WC / Debt" as "an indicator for a utility's ability to cover the costs of its borrowed capital." Further, "CFO pre-WC" is defined as "Cash Flow from Operations Before Changes in Working Capital [...] because, unlike Funds from Operations (FFO), it captures the changes in long-term regulatory assets and liabilities."

<sup>6</sup> Moody's, *Regulated Electric and Gas Utilities* (June 23, 2017), p. 4. Regarding financial credit metrics, Moody's explains that 40 percent of a utility's rating is based on "Financial Strength, Key Financial Metrics."



1           *Secured Debt.* An issuer may obtain a higher credit rating for its debt by  
2           issuing secured debt. Secured debt is debt backed or secured by collateral  
3           to reduce the associated recovery risk for investors in a default scenario.

4           It is common for utilities to issue secured debt in a mortgage bond  
5           structure. A mortgage bond is secured by a mortgage or pool of mortgages  
6           that are typically backed by all the property, plant and equipment of the  
7           utility. In the event of default, mortgage bondholders have a priority claim  
8           over the assets of the Company. The rating agencies generally view  
9           mortgage bonds as having a very high recovery rate due to the critical  
10          infrastructure nature of the assets. Mortgage bonds are typically rated  
11          2 notches higher than a utility's corporate credit rating.<sup>7</sup>

12          *Securitization.* Securitization has been used by utilities as a cost-  
13          efficient means to finance various types of expenditures, such as stranded  
14          costs and significant storm costs, among others. The securitization  
15          structure isolates a discrete revenue stream that is dedicated to debt service  
16          for the securitized debt and requires enabling legislation from the state.<sup>8</sup>  
17          The rating agencies treatment of securitization differs. S&P typically  
18          deconsolidates securitization debt and makes certain other adjustments  
19          when calculating its credit metrics, assuming the securitization structure  
20          meets S&P's protective criteria.<sup>9</sup> Moody's views securitization as on-credit  
21          debt and does not remove securitized debt from the balance sheet for  
22          calculating its credit metrics. However, Moody's ratings methodology notes  
23          that where securitization debt is on balance sheet, they will also consider  
24          credit ratios that exclude securitization debt and related revenues.<sup>10</sup>

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<sup>7</sup> *Ibid.*, p. 44; see also S&P, *Collateral Coverage and Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property* (January 22, 2016), p. 3. S&P also notes the possibility of a 3 notch upgrade for a Speculative-grade ICR - [W]e apply more notching uplift on the secured utility bonds of speculative-grade ('BB+' and below) issuers, as the likelihood of an actual default is higher and recovery is a more meaningful consideration., p. 4 and p. 5.

<sup>8</sup> Moody's Regulated Electric and Gas Utilities (June 23, 2017), p. 44.

<sup>9</sup> S&P Global Ratings, *Ratings Direct: Key Credit Factors For The Regulated Utilities Industry* (January 22, 2016), p. 16.

<sup>10</sup> Moody's, Regulated Electric and Gas Utilities (June 23, 2017), p. 44 and p. 45.

## 2. Credit Ratings for California Utilities

In light of the points above, California utilities typically score highly on business fundamentals evaluated by the rating agencies. In general, California utilities have stable cash flows, a monopoly franchise, and a predictable regulatory environment.

Recently, however, rating agencies have recognized the significant financial exposure to wildfires for California utilities, which has significantly elevated the business risk profile of California utilities. The inverse condemnation doctrine has been identified as a source of significant risk for California utilities by both S&P and Moody's: "California's interpretation of the legal doctrine of inverse condemnation effectively makes California's electric utilities the state's reinsurer, which creates new risks that were never envisioned when investor-owned utilities (IOU) were established. We don't believe that an electric utility is large enough, sufficiently diversified, or adequately capitalized to be a reinsurer."<sup>11</sup> The risk under inverse condemnation that utilities will face financial liabilities following a wildfire is pronounced for IOUs because cost recovery is uncertain and because of the topography and size of their service territories.<sup>12</sup>

### a. Impact of Assembly Bill 1054

The credit rating agencies have also explained, however, that AB 1054 stands to mitigate utility exposure to wildfire risk, although credit outlook remains contingent on constructive regulatory implementation of the legislation. Moody's stated: "The new law establishes a strong framework to manage wildfire risk and the ensuing financial threats to utilities but there is more work to be done. Effective implementation of the wildfire mitigation plans required under the law will

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<sup>11</sup> *Credit FAQ: Will California Still Have An Investment-Grade Investor-Owned Electric Utility?* (February 19, 2019), p. 2.

<sup>12</sup> *FAQ: California public power utilities are not immune to wildfire risks* (April 9, 2019), p. 1.

1 be critically important in reducing the wildfire-related risks facing the  
2 state's utilities."<sup>13</sup>

3 Even as the rating agencies monitor the implementation of  
4 AB 1054, the legislation has resulted in a more stable outlook overall  
5 for California's IOUs, based in particular on improved assessments of  
6 business risk and regulatory framework. That approach is reflected  
7 in recent rating agency analyses of Southern California Edison (SCE)  
8 and San Diego Gas & Electric (SDG&E). For example, in August 2019,  
9 Moody's recognized that "[t]he passage of AB 1054 and the subsequent  
10 establishment of the insurance fund has had a strong stabilizing effect  
11 on SCE's credit profile," but "SCE's credit profile could still evolve, to a  
12 stronger position or a weaker position, depending on the implementation  
13 of the wildfire legislation ... ." <sup>14</sup> Moody's described its improved  
14 assessment of the regulatory framework affecting SCE based on its  
15 belief "that AB 1054 has substantially offset the negative credit effects of  
16 the inverse condemnation law."<sup>15</sup> At the end of 2019, S&P also revised  
17 its outlook on SCE to stable based on its expectation that the utility will  
18 benefit from credit-supportive measures within AB 1054.<sup>16</sup>

19 Similarly, Moody's updated its outlook for SDG&E to positive in the  
20 wake of AB 1054, noting: "[R]ecently enacted legislation in California,  
21 particularly [AB] 1054, combined with SDG&E's track record of effective  
22 wildfire mitigation, have reduced the utility's catastrophic wildfire risk  
23 exposure," but "[f]ailure to successfully implement the provisions of  
24 AB 1054 associated with the insurance fund in a consistent and credit

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<sup>13</sup> *FAQ on the credit implications of California's new wildfire law* (Aug. 6, 2019), p. 3; see also S&P, *Industry Top Trends 2020: North America Regulated Utilities* (November 7, 2019), p. 1 ("While wildfires remain operationally challenging for California's utilities, we expect that the passage of [AB] 1054 into law adds sufficient financial credit enhancements to protect the utility's credit quality over the next several years, absent near-term catastrophic wildfires.").

<sup>14</sup> *Southern California Edison Company: Update following the passage of AB 1054* (August 2, 2019), p. 2; *ibid.* (listing "[e]xecution risk in the CPUC's implementation of new prudence standards" as a credit challenge)

<sup>15</sup> *Ibid.*, p. 7.

<sup>16</sup> S&P Global Ratings, Ratings Direct: Southern California Edison Co. (December 26, 2019)

1 supportive manner would likely trigger negative momentum on the  
2 rating.”<sup>17</sup> Moody’s also strengthened its assessment of SDG&E’s  
3 regulatory framework because of AB 1054.<sup>18</sup> S&P likewise revised its  
4 outlook for SDG&E to stable from negative and characterized the  
5 company’s business risk as strong; S&P emphasized that AB 1054 was  
6 “designed to minimize the impact of a catastrophic wildfire and to reduce  
7 the associated financial impact to an investor-owned electric utility,” and  
8 therefore “supports the regulatory construct and reduces business risk  
9 for SDG&E over the medium term.”<sup>19</sup>

10 **b. Expected Debt Ratings for PG&E Upon Emergence.**

11 Rating agencies are likely to be quite conservative in assessing  
12 PG&E’s business risk because of ongoing wildfire risk and uncertainty  
13 regarding the regulators implementation of AB 1054. PG&E has  
14 greater exposure to wildfire risk compared with SCE and SDG&E  
15 because of the size and character of its service territory. Additionally,  
16 the fact that PG&E was forced to seek protection under the BK laws,  
17 creates additional public scrutiny leading to enhanced political and  
18 regulatory risk.

19 Given PG&E’s business risk will likely be viewed as being higher  
20 than its California utility peers, PG&E would likely be assigned lower a  
21 corporate credit rating than SCE and SDG&E even if PG&E achieved a  
22 comparable financial risk profile.

23 For SCE, Moody’s provides a leverage outlook of CFO Pre-  
24 WC/Debt of 16 percent to 18 percent and S&P provides a FFO/Debt  
25 outlook of 15 percent to 18 percent. Moody’s rates SCE senior  
26 unsecured debt at Baa2 and its first mortgage bonds two notches higher  
27 at A3. S&P rates SCE senior unsecured debt BBB and its first mortgage  
28 bonds two notches higher at A-.

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17 Moody’s, *San Diego Gas & Electric Company: Update following outlook change to positive* (Aug. 2, 2019), pp. 1, 3.

18 *Id.*

19 S&P Global Ratings, *San Diego Gas & Electric Co. Ratings Affirmed, Outlook Revised to Stable From Negative* (July 30, 2019), p. 1.

1 For SDG&E, Moody's provides a leverage outlook of CFO Pre-  
2 WC/Debt of 22 percent to 25 percent and S&P provides a FFO/Debt  
3 outlook of approximately 20 percent. Moody's rates SDG&E senior  
4 unsecured debt at Baa1 and its first mortgage bonds two notches higher  
5 at A2. S&P rates SDG&E senior unsecured debt at BBB+ and its first  
6 mortgage bonds two notches higher at A.

7 I have reviewed PG&E's preliminary and confidential financial  
8 projections under the Plan and reviewed the company's leverage profile  
9 under the Moody's and S&P methodology. Under the contemplated  
10 PG&E Plan, PG&E's leverage profile falls within the investment grade  
11 category for the broad regulated utility sector.

12 Comparing PG&E to its closest comparable, SCE, based on an  
13 expectation of a weaker business risk profile, slightly weaker leverage  
14 outlook, and in the context of a BK exit, it seems likely that PG&E's  
15 ratings will be lower than SCE's ratings. With the same secured  
16 notching treatment the rating agencies use for SCE and SDG&E,  
17 I believe PG&E should achieve an investment grade rating on its first  
18 mortgage bonds.<sup>20,21</sup>

19 Additionally, the Company's ratings will be positioned to improve  
20 over time with the implementation of system hardening and additional  
21 safety enhancements to reduce wildfire risk. Consistent with the  
22 foregoing descriptions of rating agency analyses of SCE and SDG&E,  
23 rating agencies' view of PG&E's business risk would benefit from  
24 constructive regulatory implementation of AB 1054.

### 25 **3. Investment Grade Bond Market**

26 The United States investment grade bond market is extremely deep and  
27 liquid. As of December 31, 2019, the United States Investment Grade Index

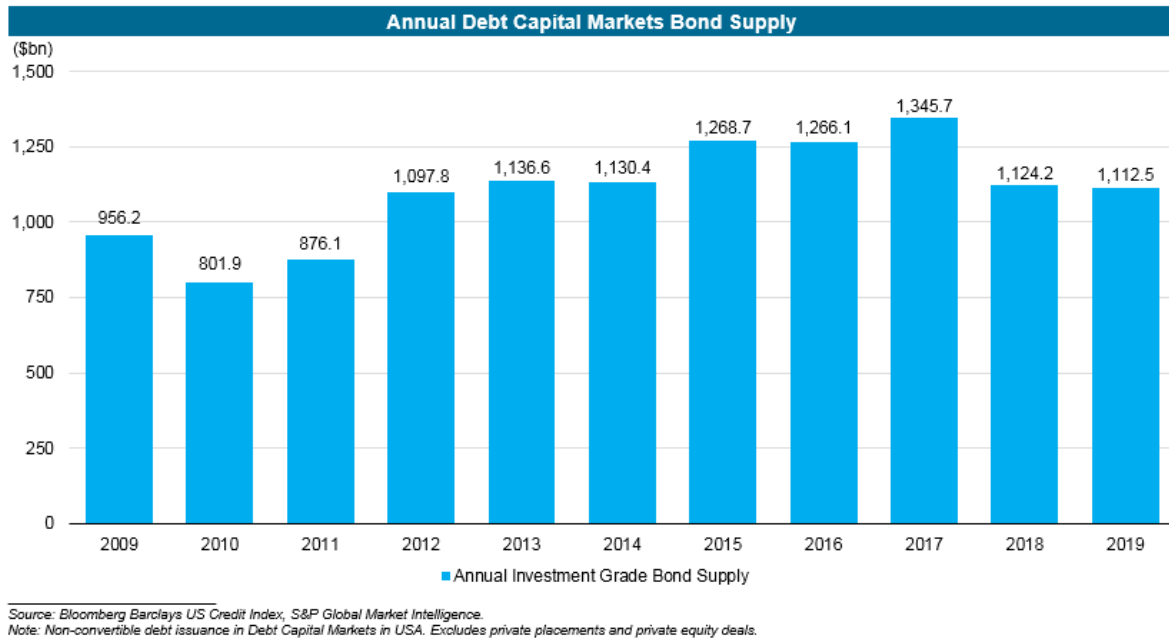
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20 "[I]n most cases we have two notches between the first mortgage bonds and senior debt of regulated electric and gas utilities in the U.S. Wider notching differentials between debt classes may also be appropriate in the speculative grade." Moody's, *Regulated Electric and Gas Utilities* (June 23, 2017), p. 44. I have not evaluated notching under Moody's LGD methodology for speculative grade companies, as I believe it is not likely to be applied for a regulated utility.

21 S&P, *Collateral Coverage and Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property* (January 22, 2016).

1 was comprised of \$6.23 trillion of supply across 6,822 securities.<sup>22</sup> Debt  
2 capital markets supply has averaged \$1.10 trillion annually from 2009 to  
3 2019, with supply totaling as much as \$1.35 trillion in 2017.

**FIGURE 3-1**



4 Single offerings in the investment grade bond market have been as  
5 large as \$49 billion. As an example, in November 2019, AbbVie, Inc. issued  
6 \$30 billion of bonds in the investment grade bond market.

<sup>22</sup> Bloomberg L.P. "United States Investment Grade Index" data as of December 31, 2018. Retrieved from Bloomberg database.

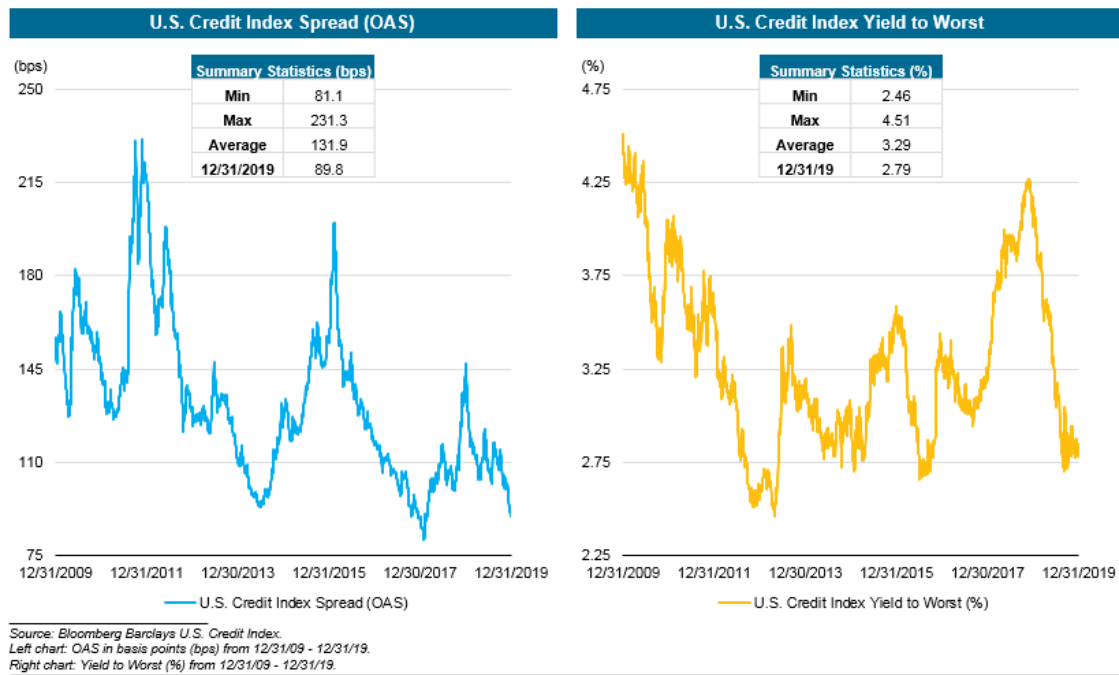
FIGURE 3-2

Largest IG Bond Market Offerings (2009 – Present)			
Rank	Date	Issuer	Total Deal Size
1	9/11/2013	Verizon Communications Inc.	\$49,000,000,000
2	1/13/2016	Anheuser-Busch InBev Finance Inc.	\$46,000,000,000
3	3/6/2018	CVS Health Corporation	\$40,000,000,000
4	11/12/2019	AbbVie Inc.	\$30,000,000,000
5	10/2/2018	Comcast Corporation	\$27,000,000,000
6	7/27/2017	AT&T Inc.	\$22,500,000,000
7	3/3/2015	Actavis PLC	\$21,000,000,000
8	5/17/2016	Dell International LLC / EMC Corp	\$20,000,000,000
8	9/6/2018	Halfmoon Parent, Inc. (Cigna Corporation)	\$20,000,000,000
8	5/8/2019	International Business Machines Corporation	\$20,000,000,000

Source: Bloomberg, publicly available company filings.

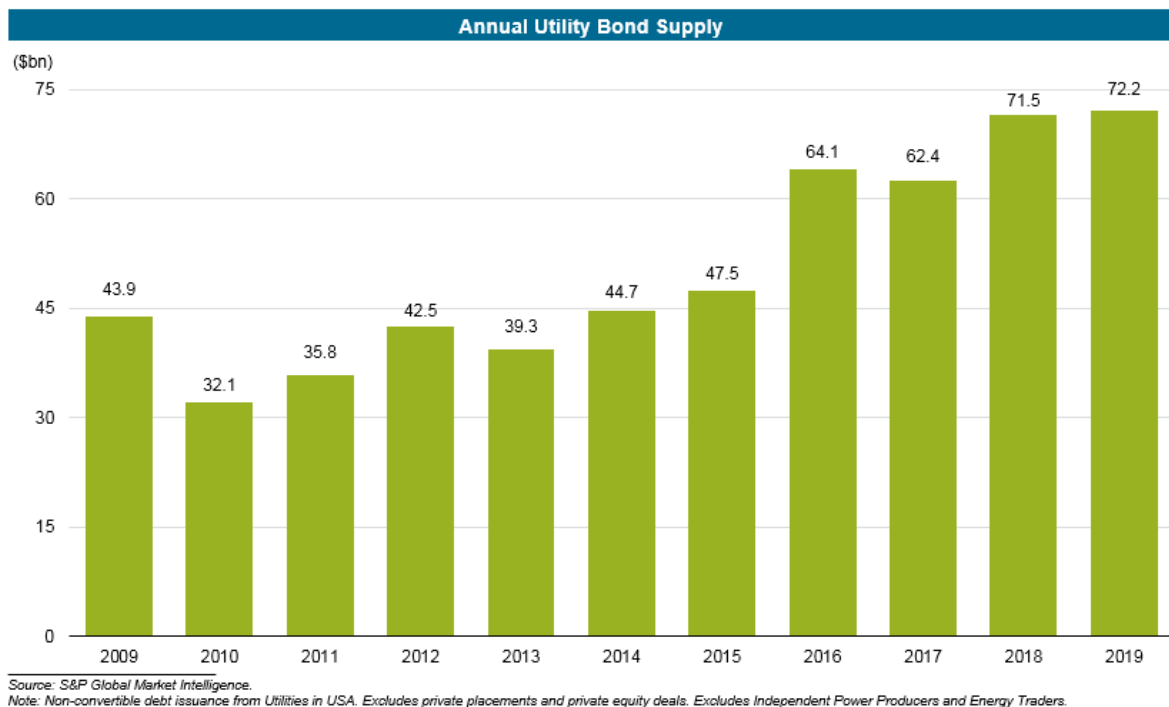
1                   The Investment Grade United States (U.S.) Credit Index is near the  
2                   lowest level it has been over the last 10 years. The average risk premium,  
3                   or credit spread over U.S. Treasuries, is currently just 90 basis points (bps).  
4                   Meanwhile, the all-in yield is currently 2.79 percent compared to the 10-year  
5                   average of 3.29 percent. The average tenor of the Investment Grade  
6                   U.S. Credit Index is 11.2 years. Indeed, as shown in the charts below, the  
7                   current cost of investment grade debt is very attractive on a historical basis.

FIGURE 3-3



- 1 The utility sector is quite active in issuing investment grade debt. Utility
- 2 bond supply has averaged \$50.5 billion annually from 2009 to 2019,
- 3 reaching a high of \$72.2 billion pricing in 2019.

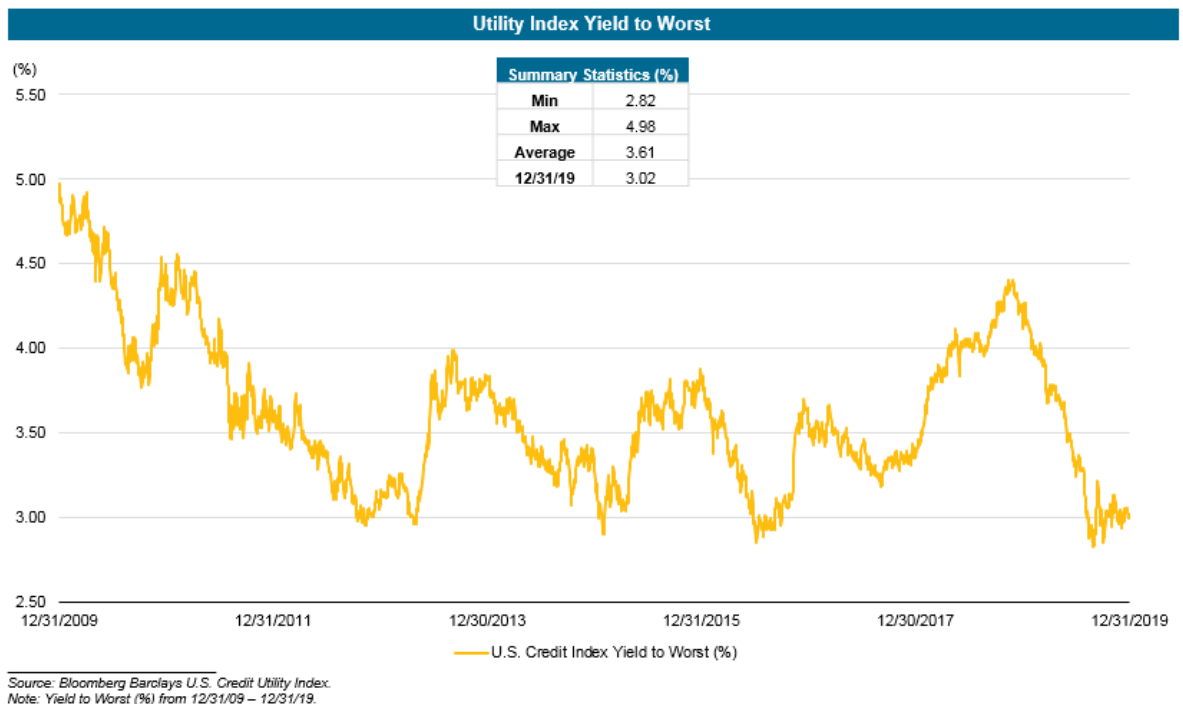
FIGURE 3-4





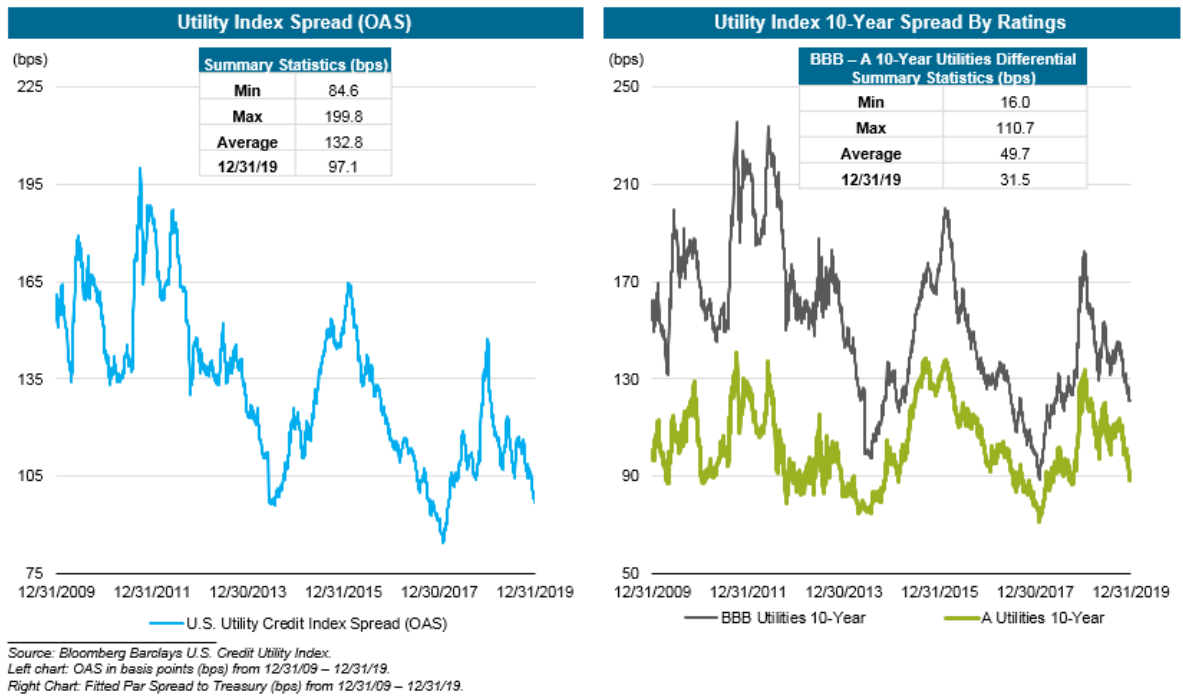
As shown in the charts below, the risk premium (or credit spread) of the Investment Grade U.S. Utility Index is currently 97 bps and the yield is currently 3.02 percent. Utility index credit spreads and yields are currently just approximately 20 bps higher than the lowest levels achieved in the last 10 years. Utility companies are typically able to borrow at lower rates compared to non-utility companies with the same rating.

**FIGURE 3-5**



The risk premium for utility companies with BBB ratings is also very favorable relative to utility companies with higher credit ratings in the current market. The risk premium differential for utility companies with BBB ratings compared to utility companies with A ratings is currently 32 bps, lower than the average of approximately 50 bps over the past 10 years.

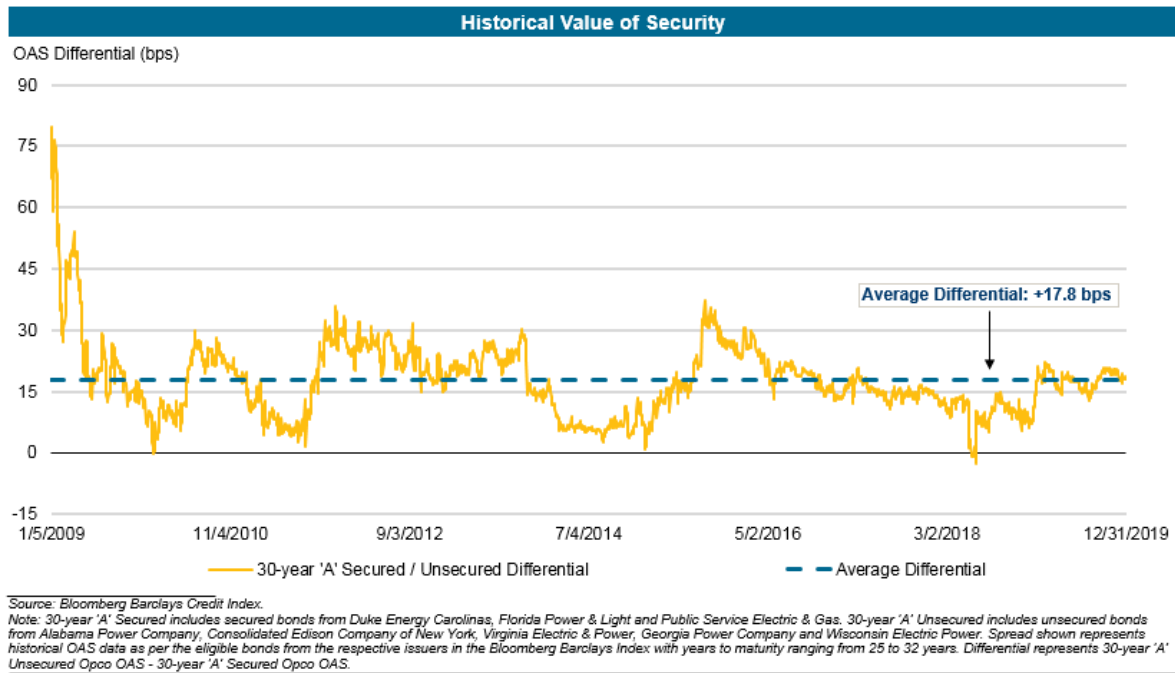
FIGURE 3-6



Historically, on average, utility unsecured operating company debt has had a higher premium (or credit spread) compared to secured operating company debt. This reflects investors' perception that secured utility debt has a very low probability of capital loss. In periods of distress, the risk premium differential between unsecured and secured utility debt has been over 75 bps. Currently, secured utility operating company debt has an approximately 20 bp lower risk premium than unsecured operating company debt.

Accordingly, utilities commonly issue first mortgage bonds instead of unsecured bonds to lower their cost of debt capital.

FIGURE 3-7



*PG&E Will Be Able to Issue Investment-Grade Debt.* Based on my assessment of PG&E's anticipated credit profile and the debt market, I believe that PG&E will be able to issue investment-grade mortgage bonds to fund its Plan. Specifically, in my opinion PG&E will be able to issue investment grade rated first mortgage bonds that will attract more than enough capital from institutional investors to fund PG&E's Plan and its capital needs upon emergence.

High grade debt investors will be attracted to PG&E's potential for credit improvement. Continued progress by the Company and the state to lower wildfire risk and a constructive track record by the regulator of implementing AB 1054 would lead to a lower business risk and a potential credit upgrade at expected leverage levels. Additionally, PG&E's financial profile is expected to improve, with leverage declining. High grade investors also generally strongly favor first mortgage bonds which will be another positive factor for investor demand and will help the Company achieve a lower cost of funding.

I also believe the Company's access to the investment grade bond market should continue to improve over time, consistent with the above view that the Company's credit profile will improve based on improved financial ratios and constructive regulatory implementation of AB 1054.

## D. Equity Financing for Utilities

### 1. Overview

In connection with its exit from Chapter 11, PG&E has access to new equity funding through its equity backstop commitment letters. In addition, in my opinion, over the medium and longer term, PG&E should be able to access the public equity market for additional capital.

### 2. Equity Market Access for Utilities

Equity investor sentiment for the utility sector is currently very strong. This is exemplified by the magnitude of the sector and its positive performance and high valuations. Utility equities attract significant capital from a large number of sophisticated institutional investors.

#### a. Utility Equity Performance and Valuations

The performance of equities in the utilities sector has been strong in recent history. In particular, the sector has experienced the following positive performance in the recent one and 5-year periods:

FIGURE 3-8

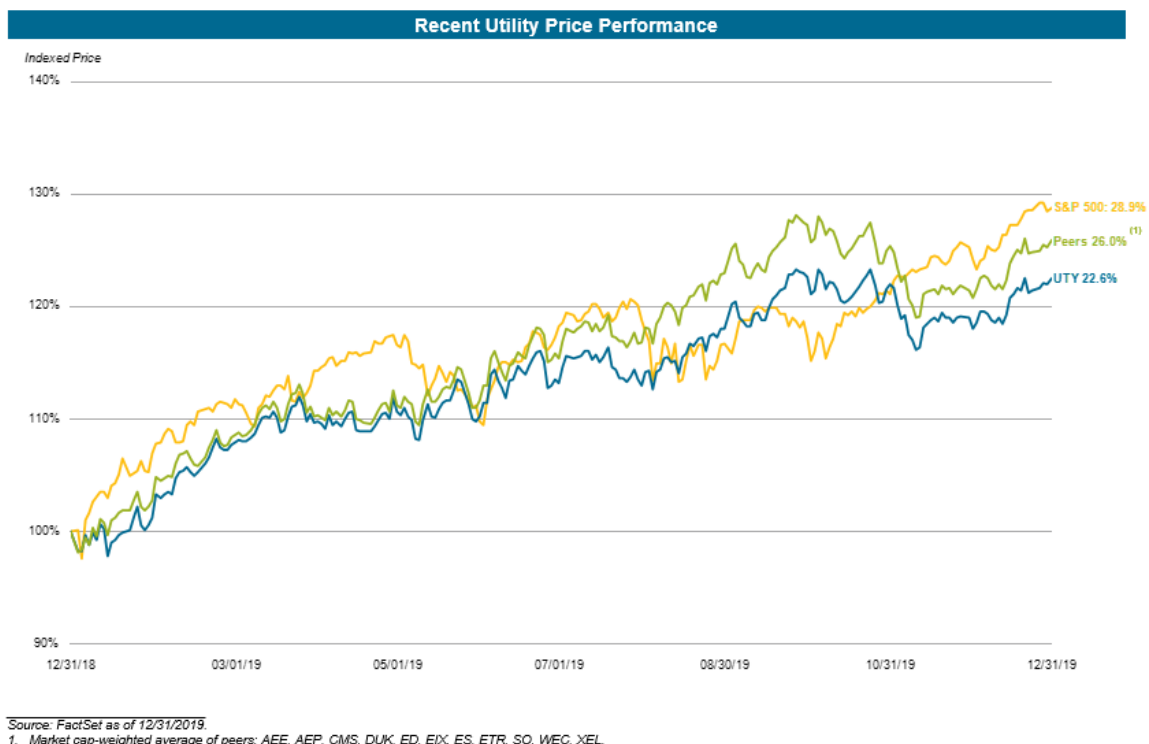


FIGURE 3-9

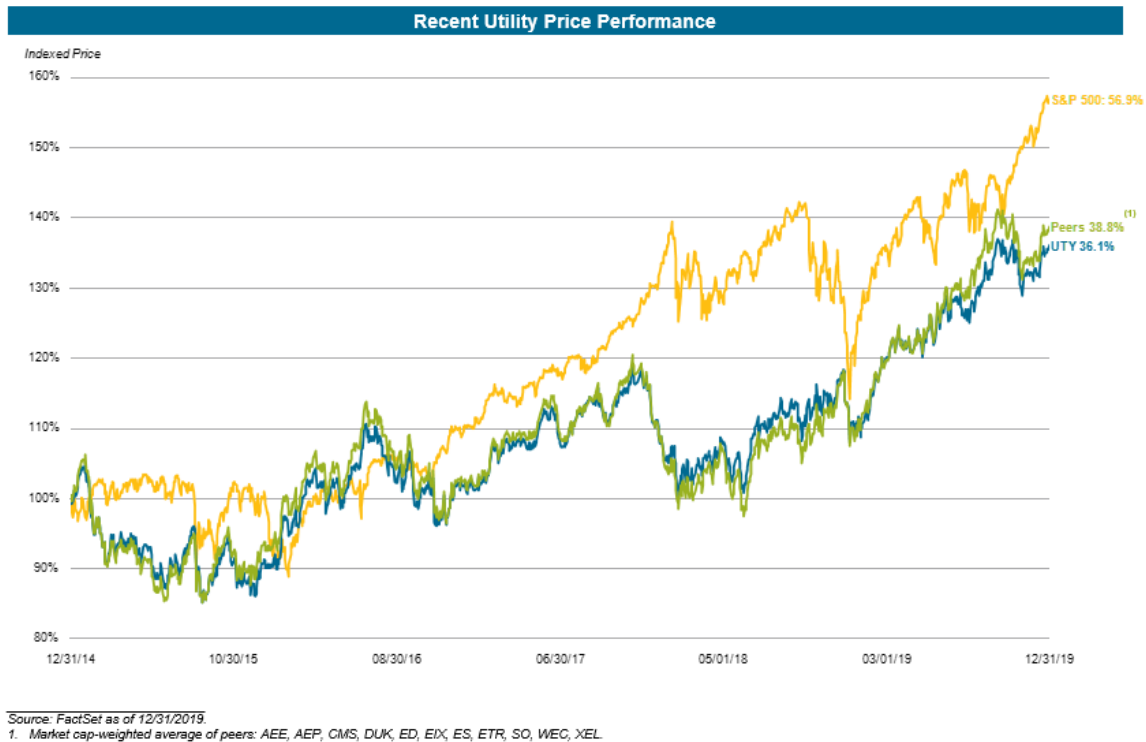
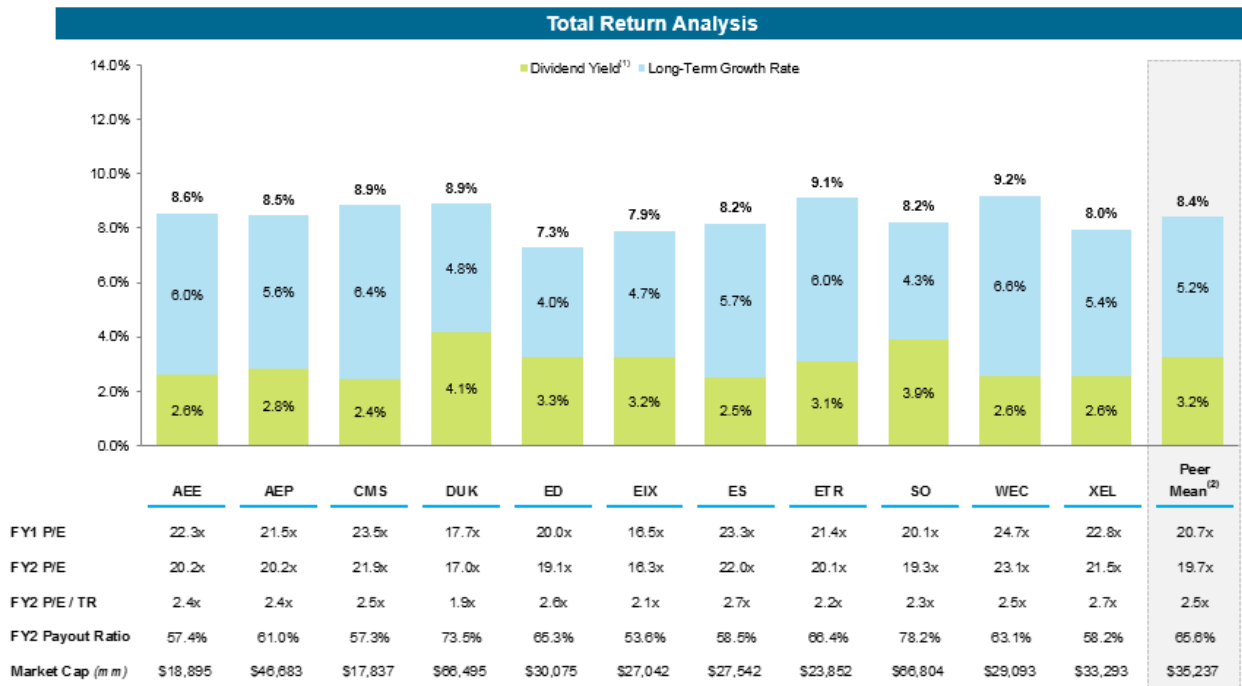
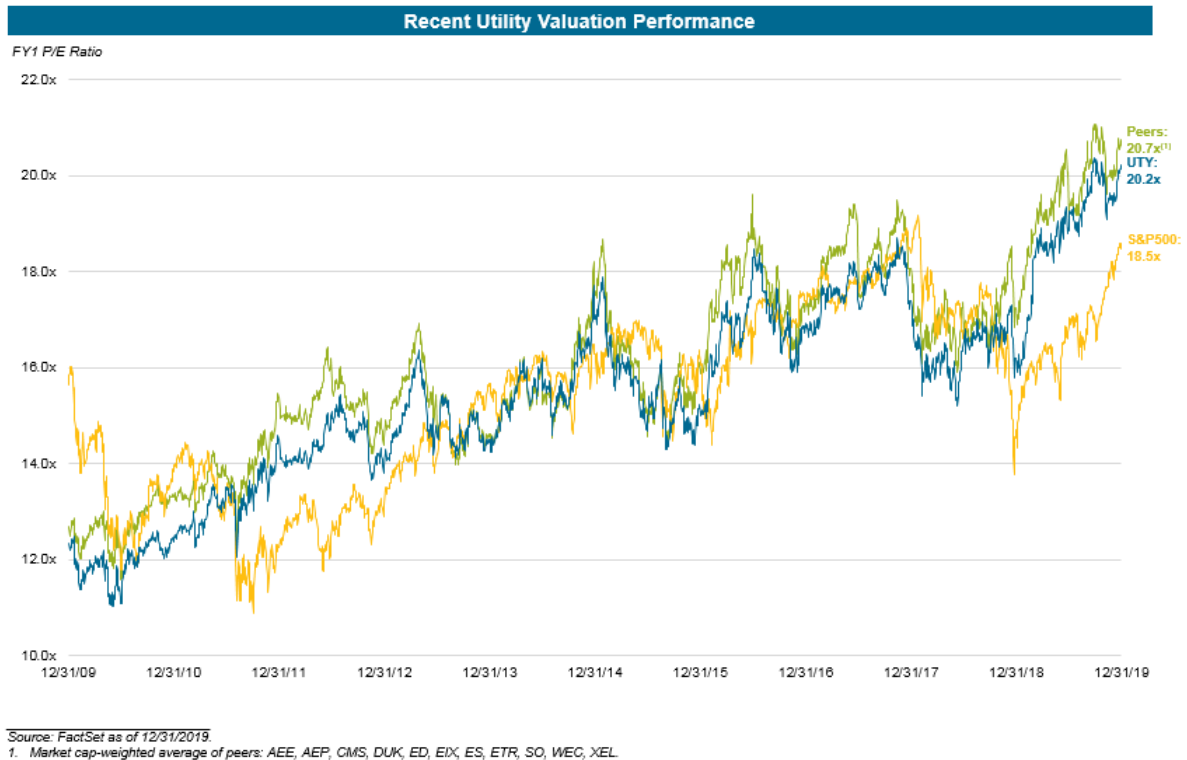


FIGURE 3-10



1 A further reflection of the attractiveness of utilities equity to  
2 investors is the strong valuations across this sector. In particular, the  
3 price-to-earnings ratios in the sector are close to historic highs, as  
4 shown in the following:

**FIGURE 3-11**



**b. Depth of Utility Equity Market**

Utility equities are held by a strong and broad investor base, and these investments have been favored by large institutional investors. Many of the biggest and best-known institutional investors have very substantial holdings in the utilities sector.

The following are the top 30 Shareholders of U.S. Utilities:

FIGURE 3-12

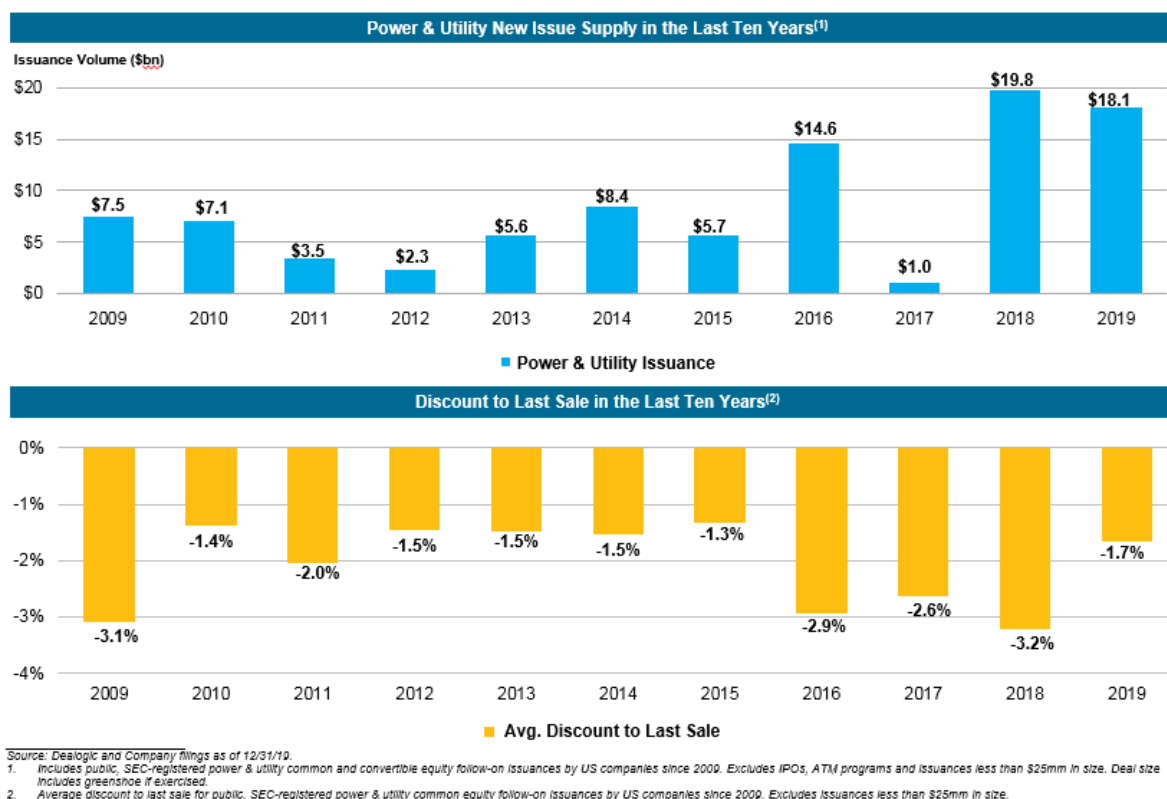
Holder Name	Market Value Held (\$mm) <sup>(1)</sup>	Holdings Style	Investor Type
The Vanguard Group, Inc.	\$36,999	Index	Mutual Fund Manager
BlackRock Fund Advisors	\$23,447	Index	Investment Adviser
SSgA Funds Management, Inc.	\$21,199	Index	Mutual Fund Manager
T. Rowe Price Associates, Inc. (Investment Management)	\$8,640	Growth	Mutual Fund Manager
Geode Capital Management LLC	\$5,852	Index	Investment Adviser
JPMorgan Investment Management, Inc.	\$5,694	Growth	Mutual Fund Manager
Franklin Advisers, Inc.	\$5,497	Growth	Mutual Fund Manager
Massachusetts Financial Services Co.	\$5,213	Growth	Mutual Fund Manager
Northern Trust Investments, Inc. (Investment Management)	\$5,004	Index	Investment Adviser
Renaissance Technologies LLC	\$4,231	Growth	Hedge Fund Manager
Magellan Asset Management Ltd.	\$3,716	Growth	Investment Adviser
Wellington Management Co. LLP	\$3,228	Growth	Mutual Fund Manager
Invesco Capital Management LLC	\$3,043	Growth	Investment Adviser
The California Public Employees Retirement System	\$2,926	Growth	Pension Fund Manager
Capital Research & Management Co. (Global Investors)	\$2,768	Growth	Investment Adviser
Pictet Asset Management SA	\$2,755	Growth	Investment Adviser
Legal & General Investment Management Ltd.	\$2,754	Index	Investment Adviser
Invesco Advisers, Inc.	\$2,589	Growth	Investment Adviser
BlackRock Investment Management (UK) Ltd.	\$2,570	Growth	Investment Adviser
Fidelity Management & Research Co.	\$2,460	Growth	Investment Adviser
Columbia Management Investment Advisers LLC	\$2,406	Growth	Mutual Fund Manager
Wells Fargo Clearing Services LLC	\$2,290	Growth	Private Banking/Wealth Mgmt
Managed Account Advisors LLC	\$2,169	Growth	Investment Adviser
Mellon Investments Corp.	\$1,960	Value	Investment Adviser
BlackRock Advisors (UK) Ltd.	\$1,928	Index	Investment Adviser
Goldman Sachs & Co. LLC (Private Banking)	\$1,868	Growth	Private Banking/Wealth Mgmt
Schweizerische Nationalbank (Investment Portfolio)	\$1,806	Growth	Bank Investment Division
Charles Schwab Investment Management, Inc.	\$1,741	Growth	Investment Adviser
Norges Bank Investment Management	\$1,625	Growth	Sovereign Wealth Manager
Nikko Asset Management Co., Ltd.	\$1,623	Value	Investment Adviser
<b>Total</b>	<b>\$170,003</b>		

Source: FactSet. Holdings as of Q3 2019 or most recent filings. Market value based on stock price as of 12/31/19.  
1. Market value held across utility peers. Peers include AEE, AEP, CMS, DUK, ED, EIX, ES, ETR, SO, WEC, XEL.

1 Accordingly, the new issue market for utilities is very deep, with  
2 utilities able to access large amounts of equity capital at very efficient  
3 pricing levels.

4 In particular, there has been a large amount of new equity issued in  
5 the utilities sector over the past couple years. This is reflected in the  
6 following charts of new issuance volumes:

FIGURE 3-13



This very substantial amount of new utility equity has been well-received by the market. This receptiveness is reflected by the tight discounts on these equity issuances, as shown above, which highlight the strong investor demand for new utility equity.

In sum, substantial new utility equity is readily absorbed by the market.

This strong receptiveness to new utility equity is also true specifically for California utilities. Of particular significance, in July 2019, Edison International (EIX), had ready access to the equity markets, raising \$2.2 billion at a 2.52 percent discount to last sale. In addition to being recent and involving a close peer, the EIX transaction is particularly relevant because it was the first equity offering by a California utility subsequent to AB 1054. It thus highlights AB 1054's importance in the eyes of equity investors, as a mitigating factor to the wildfire risks facing California utilities.



1 In addition, in 2018, the other major California IOU, Sempra, issued  
2 new equity. That issuance, of \$4.6 billion, also was well received by  
3 institutional investors.

### 4 **3. Expected Equity Market Access for PG&E Upon Emergence**

5 The equity needed to finance PG&E's Plan is provided by the already-  
6 existing equity backstop commitments. After its emergence from BK, I  
7 expect PG&E to have ongoing access to the equity markets to raise  
8 additional capital. This conclusion is based on the following features.

9 First, there is strong investor demand for utility equity broadly, as I  
10 discuss above. As noted, this includes demand for California utilities equity  
11 post the passage of AB 1054.

12 Second, California's adoption of AB 1054 will, if constructively  
13 implemented by regulators, mitigate the wildfire risk faced by California's  
14 utilities. Constructive regulatory implementation of AB 1054 stands to  
15 improve both PG&E debt ratings and the discount that the equity market  
16 might otherwise demand to account for wildfire risk over time, resulting in a  
17 stronger PG&E equity valuation. This will improve the terms on which  
18 PG&E can access the equity markets in the medium and longer terms.

19 Third, as PG&E continues to deploy substantial capital to harden its  
20 system and improve its infrastructure, it stands to lower its overall wildfire  
21 risk. This ongoing reduction in risk also should have a positive effect on  
22 PG&E's valuation and access to the equity markets.

23 Fourth, PG&E has a path to improve its credit ratings in the coming  
24 years, particularly as the rating agencies gain comfort with the consistent  
25 regulatory implementation of AB 1054 and system hardening and safety  
26 initiatives prove effective.

27 Fifth, the anticipated strong rate base growth, likely followed by income  
28 growth, should put PG&E on a path to renewing its dividend pay-outs. That  
29 in turn will further expand its access to equity capital in the medium term, as  
30 more income focused investors will increasingly be interested in owning  
31 PG&E stock.

32 For all of these reasons, in my opinion PG&E is likely to have substantial  
33 access to additional equity capital following its emergence under the PG&E  
34 Plan, to help fund PG&E's substantial capital expenditure program.

**PACIFIC GAS AND ELECTRIC COMPANY**  
**CHAPTER 4**  
**BOARD GOVERNANCE (SCOPING MEMO SECTION 3.1)**

PACIFIC GAS AND ELECTRIC COMPANY  
CHAPTER 4  
BOARD GOVERNANCE (SCOPING MEMO SECTION 3.1)

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**PACIFIC GAS AND ELECTRIC COMPANY**  
**CHAPTER 4**  
**BOARD GOVERNANCE (SCOPING MEMO SECTION 3.1)**

**A. Executive Summary**

- A board of directors' responsibility is to oversee the business and affairs of the company by establishing an appropriate "tone from the top," setting corporate policies and goals, working with executive management as management implements those policies and pursues those goals on a day-to-day basis, and holding management accountable for results. This requires directors who are independent, who have diverse skills, and who participate actively in the board and its committees.
- In 2019, PG&E Corporation and Pacific Gas and Electric Company (the Utility, and together with PG&E Corporation, PG&E) undertook a Board refreshment that added independent directors who have substantial restructuring and financial expertise, as well as experience in public safety, gas pipeline safety, utility operations, regulatory policy, and other matters. In 2020, PG&E will undertake a further Board refreshment that will focus on the director skills necessary to lead the companies following emergence from Chapter 11 in a manner that is beneficial for PG&E's customers and other stakeholders—with customer and workforce safety being PG&E's first and highest priority.
- PG&E is in the process of implementing a number of significant Board-level reforms, such as reevaluating PG&E's director skills matrix, strengthening director independence requirements, working to increase the number of California residents on the Boards, and enhancing Board committee oversight of safety and risk.
- PG&E's Boards utilize a well defined committee structure with clearly assigned roles. The PG&E Corporation and/or Utility Board committees include: (i) a Nominating and Governance Committee, which defines the mix of skills PG&E desires for the Boards, vets candidates, and reviews Board and committee performance; (ii) Safety and Nuclear Oversight (SNO) Committees, which generally oversee safety; (iii) a Compliance and Public Policy Committee, which coordinates the compliance oversight of the

1 various Board committees; (iv) a Compensation Committee, which oversees  
2 matters relating to compensation and benefits; (v) a Finance Committee,  
3 which oversees matters relating to financial and investment planning,  
4 policies, and risks; and (vi) Audit Committees, which oversee the allocation  
5 of risk management, among other things. Each of these committees is  
6 comprised exclusively of independent directors.

- 7 • The Boards recently have implemented a number of structural and other  
8 changes at PG&E to improve oversight in the related areas of safety, risk,  
9 and compliance. The Boards have been particularly focused on improving  
10 PG&E's Enterprise and Operational Risk Management (EORM) program.
- 11 • Board members also have been broadly focused on wildfire risk mitigation,  
12 including overseeing ways to mitigate the incidence and customer impacts  
13 of Public Safety Power Shutoffs (PSPS).
- 14 • Institutional Shareholder Services Inc. gives PG&E Corporation its highest  
15 score for board-level governance.

## 16 **B. Introduction**

17 My name is Nora Mead Brownell. I am the independent, non-executive  
18 Chair of the Board of Directors of PG&E Corporation and a member of the Board  
19 of Directors of the Utility. I joined the PG&E Boards in April 2019 at a time of  
20 great upheaval for the companies. The Utility was and is on criminal probation  
21 as a result of the San Bruno tragedy in 2010, and PG&E was and is addressing  
22 multitudes of issues arising from the devastating 2017 and 2018 wildfires.  
23 Relatedly, PG&E had filed for Chapter 11 bankruptcy protection, and many  
24 stakeholders, including the Governor of the State of California, had called for a  
25 change in leadership. PG&E Corporation's Chief Executive Officer (CEO) and  
26 President and numerous other senior leaders had departed, and in connection  
27 with the Board refreshment, PG&E underwent a change in the membership of  
28 80 percent of its Boards.

29 I and my fellow directors joined (or in the case of two directors, remained on)  
30 the Boards intending to chart a positive course forward. The Boards' first and  
31 highest priority is keeping customers and workers safe as PG&E provides  
32 reliable, affordable, and clean energy to its customers while returning to financial  
33 stability and health. The Boards that were seated in 2019 have devoted  
34 enormous time and energy to overseeing PG&E's efforts to rise to this

1 challenge. I detail below some of the structural and other changes we have  
2 implemented, and others we are in the process of implementing, in an effort to  
3 set PG&E on a successful long-term path that benefits PG&E's customers,  
4 shareholders, and other stakeholders.

5 I understand that Assembly Bill (AB) 1054, as codified in Public Utilities  
6 Code § 3292(b)(1)(C), requires the California Public Utilities Commission (CPUC  
7 or Commission) to consider "the reorganization plan and other documents  
8 resolving [the Utility's] insolvency proceeding, including [whether the Utility's]  
9 resulting governance structure [is] acceptable in light of the [Utility's] safety  
10 history, criminal probation, recent financial condition, and other factors deemed  
11 relevant by the commission." My testimony primarily concerns PG&E's  
12 governance at the Board level, and reflects what PG&E intends and anticipates  
13 will be its Board-level governance structure upon emergence from Chapter 11  
14 under PG&E's proposed Plan of Reorganization.<sup>1</sup> My testimony is designed to  
15 assist the Commission as it evaluates the governance structure considerations  
16 prescribed under AB 1054, consistent with New York Stock Exchange (NYSE)  
17 rules as approved by the Securities and Exchange Commission. To ensure  
18 compliance with AB 1054 and public company governance rules, PG&E will  
19 incorporate into its Plan of Reorganization or related documents the direction the  
20 Commission provides in its decision in this proceeding with regard to Board-level  
21 governance.

22 My testimony below has four parts. First, I describe certain matters  
23 concerning boards of directors in general, such as the proper role of a board and  
24 best practices for board governance as set forth in various publications.  
25 Second, I describe the PG&E Boards following their refreshment in 2019, their  
26 committee structure, certain of their general governance practices, and certain  
27 Board-level reforms the Boards are making. Third, I discuss structural and other  
28 changes the new Boards have implemented to enhance oversight of the  
29 companies' efforts to improve safety culture and performance; to reduce risk; to  
30 ensure compliance with applicable laws, regulations, and policies; and to reduce

---

1 My testimony largely does not differentiate between Board-level governance at PG&E Corporation and at the Utility because the governance structures of the two companies are substantively similar, the compositions of the two Boards are nearly identical, and the companies are submitting a joint Plan of Reorganization.

1 the incidence and impacts of PSPS events. Fourth, I discuss the Boards'  
2 commitment to transparency with the Commission, shareholders, customers,  
3 and other stakeholders.

#### 4 **C. The Role of a Board of Directors, and Best Practices for Board Governance**

5 A board of directors' role, broadly stated, is to oversee the business and  
6 affairs of the corporation.<sup>2</sup> A board fulfills this role in a variety of ways,  
7 including:

- 8 • Setting an appropriate "tone from the top" to actively cultivate a  
9 corporate culture that gives priority to integrity, ethical standards, full  
10 compliance with legal requirements, professionalism, fair dealing, and  
11 socially responsible pursuit of the company's business objectives;
- 12 • Establishing and periodically reviewing the company's long-term vision,  
13 strategy, policies, and goals, and management's plans for achieving  
14 those goals;
- 15 • Maintaining a close relationship with the CEO and other senior members  
16 of management, and working with them to provide advice and insights  
17 as they implement the company's policies and pursue its objectives on a  
18 day-to-day basis; and
- 19 • Holding the CEO and management accountable for results.<sup>3</sup>

20 Although the board oversees the company, it does not operate it on a daily  
21 basis; that is the function of management.<sup>4</sup>

22 An effective board of directors—especially for an enterprise as complex and  
23 multi-faceted as a gas and electric utility serving millions of customers—must  
24 "have ... directors with a wide range of talents, expertise, and occupational and

---

2 See Corp. Code § 300(a) ("[T]he business and affairs of the corporation shall be managed, and all corporate powers shall be exercised by or under the direction of the board.").

3 See *NYSE Corporate Governance Guide*, at iii-iv (2014) (Exh. 2 hereto).

4 See Corp. Code § 300(a) ("The board may delegate the management of the day-to-day operation of the business of the corporation to a management company or other person provided that the business and affairs of the corporation shall be managed, and all corporate powers shall be exercised under the ultimate direction of the board.").

1 personal backgrounds.”<sup>5</sup> The board of a public utility serves a unique role in  
2 that it oversees the utility’s provision of safe and reliable service for the well-  
3 being of its customers, while supporting economic development and  
4 environmental leadership in a time of dramatic impacts from climate change. A  
5 board of a public utility thus needs, for example, several members with  
6 experience and expertise in the safe, reliable, and affordable delivery of  
7 electricity and gas services in dynamic operating environments. A board of a  
8 public utility also needs members with experience and expertise in areas  
9 common to corporations more generally, such as accounting, finance, executive  
10 compensation, and corporate governance, among other things.<sup>6</sup> A board’s  
11 precise needs will be dictated by the nature of the company’s business, the  
12 changing business and regulatory environment, changing customer  
13 expectations, emerging technologies, and other factors.

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5 National Association of Corporate Directors (NACD), *Board Evaluation: Improving Director Effectiveness*, at 4 (2010); see also California Public Employees’ Retirement System (CalPERS), *Governance and Sustainability Principles*, at 16 (Sept. 2019) (Exh. 3 hereto) (“Board attributes should include a range of skills and experience which provide a diverse and dynamic team to oversee business strategy, risk mitigation and senior management performance.”); California State Teachers’ Retirement System (CalSTRS), *Corporate Governance Principles*, at 5 (Nov. 2018) (Exh. 4 hereto) (“The board should be composed of diverse individuals with the skills, education, experiences, expertise and personal qualities that are appropriate to the company’s current and long-term business needs.”); Vanguard, *Semiannual Engagement Update*, at 2 (2019) (Exh. 5 hereto) (“An effective board should . . . reflect . . . diversity of skill, experience, and opinion.”); *id.* at 4 (“Vanguard views diversity of thought, experience, and personal characteristics as an important governance matter and a fundamental trait of an effective board.”). The NACD publications cited herein are not publicly available, are made available only to NACD members, and therefore are not attached as exhibits.

6 See NACD, *Board Evaluation: Improving Director Effectiveness*, *supra*, at 5 (“An effective board will strive to become diverse professionally. General management, manufacturing, engineering, marketing, law, accounting, research and development, human resources, finance, and the public sector may all be part of a virtually limitless mix of professional callings.”); CalPERS, *supra*, at 16 (“Collectively director attributes should include expertise in accounting or finance, international markets, business, human capital management, industry knowledge, governance, customer-base experience or perspective, crisis response, leadership, strategic planning, and competence managing multifaceted risk—including expertise and experience in climate change and other environmental risk management strategies, where material to business model or operations.”); CalSTRS, *supra*, at 5 (“The skills and experience needed include, but are not limited to, financial and/or accounting, industry expertise, business management, governance, customer service, leadership, risk management, including climate risk management and cyber-risk management, and strategic planning.”).



1 A board also can benefit from demographic diversity.<sup>7</sup> In fact, California law  
2 requires any public company with its principal executive offices in California to  
3 have at least one female director by the end of 2019, and between one and  
4 three female directors (depending on the size of the board) by the end of 2021.<sup>8</sup>

5 A board functions as a collective body and needs diversity among its  
6 members in part because “no single person can be expected to bring all relevant  
7 skill sets to a board.”<sup>9</sup> No one individual, for example, is likely to have  
8 experience with gas operations, and electric operations, and safety culture, and  
9 public safety, and occupational safety, and accounting, and finance strategy,  
10 and executive compensation, and financial restructuring, and cyber-security, and  
11 regulatory policy. And even if one person did have all the requisite experience,  
12 diverse board members still would be necessary to facilitate the robust

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7 See NACD, *The Diverse Board: Moving from Interest to Action*, at 8 (2012) (“A comprehensive definition of diversity must include both ... identity and skills. Given the nature of the business world today, neither aspect can be excluded from the other.”); BlackRock, *Proxy Voting Guidelines for U.S. Securities*, at 4 (Jan. 2019) (Exh. 6 hereto) (“In identifying potential candidates, boards should take into consideration the full breadth of diversity including personal factors, such as gender, ethnicity, and age ... . In addition to other elements of diversity, we encourage companies to have at least two women directors on their board.”); CalPERS, *supra*, at 16 (“Board diversity should be thought of in terms of skill sets, gender, age, nationality, race, sexual orientation, gender identity, and historically under-represented groups. Consideration should go beyond the traditional notion of diversity to include a more broad range of experience, thoughts, perspectives, and competencies to help enable effective board leadership.”); CalSTRS, *supra*, at 6 (similar); Deloitte Center for Corporate Governance, *Women in the Boardroom: A Global Perspective*, at 6-7 (6th ed. 2019) (Exh. 7 hereto) (“We expect to see a growing consensus that women and other underrepresented groups are critical contributors to a well-composed board. ... Increased gender diversity at all levels leads to smarter decision-making, contributes to an organization’s bottom line, powers innovation, and protects against blind spots, among other benefits.”); Deloitte, *2016 Board Practices Report: A Transparent Look at the Work of the Board*, at 6 (10th ed. 2017) (Exh. 8 hereto) (noting that board diversity includes “gender, race, ethnicity, generation/age and thought”).

8 See Corp. Code § 301.3(a), (b).

9 See BlackRock, *supra*, at 4.

1 exchange of thoughts, ideas, and perspectives that lead to sound decision-  
2 making.<sup>10</sup>

3 A nominating and governance committee of the board typically makes  
4 recommendations to the full board regarding the range of skills, expertise, and  
5 experience that should be represented on the board in light of the company's  
6 evolving needs.<sup>11</sup> That same committee commonly vets Board member  
7 candidates, and then makes recommendations to the full board for who should  
8 be nominated for election at the annual shareholder meeting (or appointed by  
9 the board in the case of a vacancy between meetings).<sup>12</sup> The nominating and  
10 governance committee typically also reviews board and committee performance  
11 on a periodic basis.<sup>13</sup>

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10 See NACD, *The Diverse Board*, *supra*, at 8 (“[I]ncreasing the representation of ... diverse candidates will necessarily result in more diverse opinions, perspectives, and skills in the boardroom.”); BlackRock, *supra*, at 4 (“[W]e expect boards to be comprised of a diverse selection of individuals who bring their personal and professional experiences to bear in order to create a constructive debate of competing views and opinions in the boardroom.”); Vanguard, *supra*, at 2 (“We believe that diverse boards make better decisions, which can set in motion a virtuous circle that allows a company to innovate, seek out new customers, or enter new markets. If a company’s board is capable, diverse, and experienced, good results are more likely to follow.”); *id.* at 4 (“Studies have shown that diverse groups can make better decisions, and we believe that better decision-making can lead to better results over the long term.”).

11 See NACD, *Board Evaluation: Improving Director Effectiveness*, *supra*, at 8 (“[I]t is desirable to have an independent committee that is responsible for board excellence in both board composition and board operations. ... [T]he nominating or governance committee is an ideal vehicle for this effort.”); NACD, *Building the Strategic-Asset Board*, at 23 (2016) (“Nominating and governance committees should develop a ‘clean-sheet’ assessment of the board’s needs in terms of director skill sets and experience at least every two to three years, and use it as an input in continuous-improvement efforts ... .”); CalPERS, *supra*, at 19 (“The main role and responsibilities of the nomination committee should ... include[] ... [d]eveloping a skills matrix, by preparing a description of the desired roles, experience and capabilities for each appointment, and then evaluating the composition of the board.”); Deloitte, *2016 Board Practices Report*, *supra*, at 15 (reporting that 61 percent of large cap companies surveyed “use a board skills matrix or similar tool”).

12 See CalPERS, *supra*, at 19 (“The main role and responsibilities of the nomination committee should ... include[] ... [l]eading the process for board appointments and putting forward recommendations to shareowners on directors to be elected and re-elected.”); Financial Reporting Council, *UK Corporate Governance Code* (“UK Code”), at 8 (2018) (Exh. 9 hereto) (“The board should establish a nomination committee to lead the process for appointments.”).

13 BlackRock, *supra*, at 4 (“[R]egular performance reviews and skills assessments should be conducted by the nominating / governance committee.”).

1 Other board committees also are essential to good governance. The full  
2 board—particularly one with many members—cannot feasibly address every  
3 issue and make every decision that may come up in the process of overseeing  
4 the business and affairs of the company. Rather, a well-run board uses a  
5 committee structure, with committees comprised of at least some members with  
6 experience in the areas assigned to the committee.<sup>14</sup> Board committees can be  
7 empowered to require reports from management, can make reports and  
8 recommendations to the full board for board action, and also can have delegated  
9 authority to take certain actions and make certain decisions within defined limits.

10 Independence, like diversity, is also an important requirement when it comes  
11 to board and board committee composition, in that it is “widely recognized that  
12 independent boards are essential to a sound governance structure” and that  
13 “[i]ndependence is a cornerstone of accountability.”<sup>15</sup> Broadly speaking, an  
14 independent director, as defined by NYSE guidelines, is one who “has no  
15 material relationship with the ... company (either directly or as a partner,  
16 shareholder or officer of an organization that has a relationship with the  
17 company).”<sup>16</sup> Independent directors should comprise at least a majority of a

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<sup>14</sup> See, e.g., Deloitte Center for Board Effectiveness, *Framing the Future of Corporate Governance*, at 6 (2016) (Exh. 10 hereto) (observing that “board committees [have] become increasingly critical to the operations of the board,” and that a board should “inventory[] the critical responsibilities of each governance element ... and then identify[] those that are appropriate for a board committee and those best addressed by the full board”).

<sup>15</sup> CalPERS, *supra*, at 11.

<sup>16</sup> NYSE Listed Company Manual § 303A.02(a).

1 public company board and of its committees (with NYSE guidelines requiring  
2 certain committees to be fully independent).<sup>17</sup>

3 Director independence from outside political or other influences also is  
4 important. Directors owe fiduciary duties to shareholders and generally are  
5 required to act in the shareholders' best interests (subject to exceptions or  
6 qualifications in certain contexts, such as insolvency when directors can be  
7 required to act in the best interests of creditors).<sup>18</sup> The directors of PG&E, in  
8 my experience, have taken into account impacts on customers and other  
9 stakeholders as we have discharged these fiduciary duties. Directors must be  
10 free to consider and balance all such considerations in an unbiased fashion, and  
11 must avoid conflicts of interest that could impair their ability to do so (or if a  
12 director is conflicted on a particular matter, he or she ordinarily would abstain  
13 from voting or exerting influence on the matter).<sup>19</sup> If a director is inherently  
14 beholden to an outside political or other constituency, then the director can be

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<sup>17</sup> See NACD, *Board Evaluation: Improving Director Effectiveness*, *supra*, at 4 (“A board with the right people will have a substantial majority of independent directors ... .”); BlackRock, *supra*, at 2 (“We expect a majority of the directors on the board to be independent. In addition, all members of key committees, including audit, compensation, and nominating / governance committees, should be independent.”); CalPERS, *supra*, at 11 (“Nearly all corporate governance commentators agree that boards should be comprised of at least a majority of ‘independent directors.’”); *id.* at 11 (“Committees who perform audit, director nomination and executive compensation functions should consist entirely of independent directors.”); CalSTRS, *supra*, at 5 (“The board should be comprised of at least two-thirds of independent directors who do not have a material or affiliated relationship with the company, its chairperson, CEO or any other executive officers.”); *id.* at 6 (“Companies should have audit, nominating and compensation committees. Those committees should be composed of at least three independent directors.”); UK Code, *supra*, at 7 (“At least half the board, excluding the chair, should be non-executive directors whom the board considers to be independent.”).

<sup>18</sup> See Corp. Code § 309(a) (“A director shall perform the duties of a director ... in good faith, in a manner such director believes to be in the best interests of the corporation and its shareholders and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.”); CalPERS, *supra*, at 10 (“As a fiduciary, a director owes a duty of loyalty to the corporation and its shareowners and must exercise reasonable care in relation to his or her duties as a director.”); CalSTRS, *supra*, at 7 (“The ultimate responsibility of the board is to serve the interests of its shareholders.”).

<sup>19</sup> See Corp. Code § 310; CalPERS, *supra*, at 12 (“If a director has an interest in a matter under consideration by the board, then the director should promptly declare such an interest and be precluded from voting on the subject or exerting influence.”).

1 compromised in fulfilling his or her duties, leading to distorted and suboptimal  
2 decision-making.

3 PG&E's Boards fulfill all of the best practices described above, as discussed  
4 in detail below.

#### 5 **D. The Composition, Committee Structure, and Practices of the PG&E Boards**

6 In this section of my testimony, I discuss (i) PG&E's nominating criteria and  
7 process for Board members; (ii) the composition of the current Boards; (iii) the  
8 current Boards' committee structures; and (iv) various governance-related  
9 structures and practices of the Boards, as well as Board-level reforms currently  
10 being undertaken.

##### 11 **1. PG&E's Nominating Criteria and Process for Board Members**

12 PG&E as a matter of policy seeks to ensure that its Boards are  
13 comprised of dedicated, ethical, and highly regarded individuals who  
14 collectively have experience relevant to PG&E's multifaceted operations,  
15 who understand the complexities of its business environment, and who  
16 possess the capabilities necessary to provide valuable insight, judgment,  
17 and oversight. PG&E historically has had and continues to have a robust  
18 process for identifying and seeking out such a diverse range of individuals.

19 Specifically, the PG&E Corporation Nominating and Governance  
20 Committee, which is comprised entirely of independent directors, annually  
21 reviews with each Board, and submits for each Board's approval, its  
22 recommendations for the appropriate skills and characteristics required of  
23 directors in the context of the current composition of each Board. When the  
24 Committee conducts this assessment, it considers intellectual and  
25 demographic diversity, skills, career experience, and other factors as it  
26 deems appropriate given the current needs of each Board and of each  
27 company. The Committee's recommendations are then accepted, rejected,  
28 or modified by each Board, as appropriate.

29 The product of this process is what PG&E calls its "director skills  
30 matrix"—a list of the range of backgrounds, experience, skills, and expertise  
31 that PG&E desires to balance on its Boards so that each Board is well  
32 positioned as a collective body to oversee a business as vast and complex  
33 as PG&E's. Though I was not on the Boards at the time, I understand that

1 in December 2017, the Nominating and Governance Committee  
2 recommended adding safety to the director skills matrix consistent with a  
3 recommendation from NorthStar Consulting Group (NorthStar).<sup>20</sup> I also  
4 understand that the full Boards explicitly added safety to the matrix in  
5 February 2018, and reapproved its inclusion in the skills matrix for 2019.  
6 I understand that PG&E had sought safety experience for its Boards prior to  
7 December 2017, but wanted to make this explicit in the matrix.

8 PG&E currently is undertaking its annual process of reevaluating the  
9 matrix, and plans to retain a nationally recognized independent search firm  
10 to assist. PG&E intends that its new matrix will include criteria to encourage  
11 the election of directors who collectively reflect some or all of the following  
12 attributes, expertise, or experience, all of which are germane to PG&E's  
13 needs and business and safety environment going forward:

- 14 • Wildfire safety, preparedness, prevention, mitigation, response, and/or  
15 recovery;
- 16 • Workforce safety and/or public safety;
- 17 • Technology and cybersecurity;
- 18 • Nuclear generation safety;
- 19 • Natural gas transmission, distribution, operation, and safety;
- 20 • Public policy (legal, regulatory, or government);
- 21 • Leadership in the energy or utility industry;
- 22 • Utility operation or related engineering experience;
- 23 • Innovation and technology in the clean energy or utility industry;
- 24 • Risk management (including enterprise risk management);
- 25 • Climate change mitigation or climate resilience;
- 26 • Renewable energy and related engineering experience;
- 27 • Financial performance and planning;
- 28 • Financial literacy;

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<sup>20</sup> See NorthStar Consulting Group, *Final Report: Assessment of Pacific Gas and Electric Corporation and Pacific Gas and Electric Company's Safety Culture*, at I-12 (May 8, 2017) (NorthStar Report) (recommending that PG&E "[a]dd safety to the list of qualifications used in selecting Independent Directors to the Board(s) of PG&E Corp. and PG&E"). NorthStar subsequently reported that "[t]his recommendation has been implemented." NorthStar Consulting Group, *First Update to Assessment of Pacific Gas and Electric Corporation and Pacific Gas and Electric Company's Safety Culture*, at III-55 (Mar. 29, 2019) (NorthStar First Update).



- Audit;
- Management incentives;
- Labor relations;
- Large scale customer experience;
- Public company board experience; and
- Community leadership.

PG&E intends to require that, to be eligible for nomination by the Boards for election as a director, an individual must satisfy a minimum number of qualifications identified on the skills matrix (as further defined in consultation with the independent search firm), consistent with the goal of establishing Boards that collectively reflect the range of attributes set forth in the matrix.

The Nominating and Governance Committee not only leads the process of developing the director skills matrix, but also receives and makes recommendations for which individuals should be nominated or selected to serve as new directors and for re-nominating existing directors. The Committee receives recommendations from a variety of sources, including shareholders, management, Board members, and independent search firms. The Committee intends that the independent search firm that will assist with the current reevaluation of the matrix also will assist with the nomination process, including by identifying Board member candidates, vetting all candidates (other than the companies' respective CEOs), and preparing a list of candidates fulfilling the matrix criteria and otherwise qualified to serve.

After the Committee makes its recommendations to the full Boards, each Board as a whole decides whom to nominate or re-nominate for election at the annual meeting of shareholders. Notwithstanding Committee or Board recommendations, under California statutory law, shareholders are the ones who ultimately choose whom to elect.<sup>21</sup> Shareholders also can nominate their own candidates, including by availing themselves of PG&E Corporation's proxy access bylaw provisions (discussed below).

## **2. The Composition of the Current Boards**

Following the devastating Northern California wildfires in 2017 and the Camp Fire in 2018, PG&E made the decision to file for Chapter 11

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<sup>21</sup> See Corp. Code § 301.

1 bankruptcy protection, and also received calls from many quarters, including  
2 the Governor of California, to change its leadership. In January 2019,  
3 PG&E announced that it would undertake a Board refreshment. PG&E  
4 sought new directors with the skills and experience necessary to lead the  
5 companies through Chapter 11, and sought to implement NorthStar's  
6 recommendation to "[a]dd Independent Directors to the Board who have  
7 experience with safety."<sup>22</sup> In April 2019, the Boards voted in favor of  
8 appointing numerous new Board members, and eight of 10 incumbent  
9 directors voluntarily resigned.

10 The Board refreshment, which continued through October 2019,  
11 substantially revamped the Boards; only two incumbent directors remain,  
12 and the number of current directors on the Boards has increased to 14 for  
13 PG&E Corporation and 15 for the Utility. The Board refreshment brought to  
14 PG&E fresh perspectives, and a range of diverse backgrounds,  
15 experiences, skills, and expertise. Notably, the new Boards include  
16 (i) William D. Johnson, the new PG&E Corporation CEO and President  
17 who sits on the Boards of both PG&E Corporation and the Utility; and  
18 (ii) Andrew M. Vesey, the new Utility CEO and President who sits on the  
19 Board of the Utility.

20 On July 3, 2019, PG&E submitted a Compliance Filing (Exhibit 1 hereto)  
21 in the Safety Culture Order Instituting Investigation (OII) (I.5-08-019) that  
22 describes, among other things, each director's safety-specific education and  
23 training; direct, supervisory, or management level safety-specific work  
24 experience; and safety-specific board of directors' experience. I will not  
25 repeat that lengthy material here, but rather attach it hereto and incorporate  
26 it by reference.<sup>23</sup> I nevertheless describe the backgrounds of three  
27 directors who were not included in the Compliance Filing because they  
28 joined the Boards subsequent to that filing: (i) Mr. Vesey, who joined the  
29 Utility's Board in August 2019; (ii) William L. Smith, who joined both Boards  
30 in October 2019; and (iii) John M. Woolard, who also joined both Boards in  
31 October 2019.

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<sup>22</sup> NorthStar Report at I-12.

<sup>23</sup> Since the Compliance Filing, Kenneth Liang and Frederick Buckman resigned from the Boards.



1 Mr. Vesey brings more than 35 years of diverse utility industry  
2 experience, including several roles as CEO at major energy companies.  
3 Before he joined the Utility as its new CEO and President and as a Board  
4 member, he served as the Managing Director and CEO of Sydney-based  
5 AGL Energy Limited, an integrated Australian energy company serving  
6 about 3.7 million electric and natural gas customers and operating  
7 20 percent of the country's power generation capacity. Mr. Vesey  
8 committed as AGL's top leader to closing all of the company's coal-fired  
9 generation. Before Mr. Vesey was with AGL, he served in a number of  
10 successively greater leadership roles at energy companies such as AES  
11 Corporation, where he was the Chief Operating Officer, and Entergy  
12 Corporation and Niagara Mohawk Power Corporation, where he served as a  
13 senior leader. Mr. Vesey also spent a number of years as an energy  
14 industry consultant and leader at firms that included FTI Consulting and  
15 Ernst & Young LLP. He also served as Managing Director and CEO of  
16 Melbourne-based CitiPower.

17 Mr. Smith is the retired President of AT&T Technology Operations at  
18 AT&T Services, Inc., where he spent 37 years with the telecommunications  
19 service provider and its predecessor companies. He held a number of  
20 senior officer positions at AT&T, including President of Network Operations  
21 where he oversaw data center and information technology operations;  
22 DIRECTV field operations; and planning, engineering, construction,  
23 provisioning, and maintenance for the company's wireless and wireline  
24 networks. He also served as Executive Vice President of Shared Services  
25 for AT&T and Chief Technology Officer for BellSouth Corporation. Mr. Smith  
26 brings to PG&E a comprehensive focus on large-scale integration and  
27 modernization of vast infrastructure networks, an ability to identify and  
28 leverage new technologies to meet future business needs, and a track  
29 record of delivering on commitments to public and employee safety.

30 Mr. Woolard is CEO of Meridian Energy (an energy consulting and asset  
31 acquisition company) and a Senior Operating Partner at San Francisco-  
32 based Activate Capital. He has more than 20 years of experience as an  
33 executive in the energy technology sector. Mr. Woolard previously served  
34 as the President and CEO of BrightSource Energy, where he led the

development, construction, and commissioning of the Ivanpah Solar Electric Generating System in the Mojave Desert. He also served as CEO of Silicon Energy Corp., was Vice President of Energy at Google, and headed the Energy Management Solutions Group at Itron Inc. Mr. Woolard has extensive experience in developing world-class clean energy projects, brings to PG&E a technological background and understanding of software and grid modernization solutions, and is well versed in California's regulatory and policy goals. He is a long-time California resident.

### 3. The Boards' Committee Structure

As discussed above, effective Board governance requires a well-defined committee structure with clearly assigned responsibilities. PG&E's standing Board committees, their current membership, and their basic responsibilities are set forth in the following chart (and their respective charters are attached as Exhibits 13 to 22 hereto):

Committee	Membership	Description
Audit (PG&E Corporation and the Utility)	Dominique Mielle (Chair) Richard R. Barrera Eric D. Mullins	Oversee and monitor: <ul style="list-style-type: none"> <li>Integrity of the company financial statements, and financial and accounting practices;</li> <li>Internal controls over financial reporting, and external and internal auditing programs;</li> <li>Selection and oversight of the companies' independent auditor;</li> <li>Compliance with legal and regulatory requirements, in concert with other Board committees;</li> <li>Related party transactions; and</li> <li>Risk management and assessment with the assistance of other Board committees.</li> </ul>
Compensation (PG&E Corporation)	Meridee A. Moore (Chair) William L. Smith Alejandro D. Wolff	Oversees matters relating to compensation and benefits, including: <ul style="list-style-type: none"> <li>Development, selection, and compensation of policy-making officers;</li> <li>Employment, compensation, and benefits policies and practices;</li> <li>Potential risks arising from compensation policies and practices; and</li> <li>Retention and oversight of the Committee's independent compensation consultants, legal counsel, or other advisors.</li> </ul>
Compliance and Public Policy (PG&E Corporation)	Kristine M. Schmidt (Chair)	Coordinates the compliance-related oversight of the various committees of the Boards, including:

Committee	Membership	Description
	Jeffrey L. Bleich Cheryl F. Campbell Michael J. Leffell Alejandro D. Wolff John M. Woolard	<ul style="list-style-type: none"> <li>• The companies' compliance and ethics program;</li> <li>• Compliance with laws, regulations, and internal policies and standards; and</li> <li>• Internal or external compliance reviews or audits.</li> </ul> <p>Oversees public policy, sustainability, and corporate responsibility issues that could affect customers, shareholders, or employees, including:</p> <ul style="list-style-type: none"> <li>• Energy policy positions;</li> <li>• Environmental protection, quality, and compliance;</li> <li>• Community relations programs, activities, and contributions;</li> <li>• Political contributions and political activities; and</li> <li>• Diversity and inclusion.</li> </ul> <p>Oversees the progress of the Wildfire Safety Program, and regularly reports on such progress to the full Board (although this responsibility will be transitioned to the SNO Committees).</p>
Executive (PG&E Corporation and the Utility)	Nora Mead Brownell (Chair of the PG&E Corporation Executive Committee)  Jeffrey L. Bleich (Chair of the Utility Executive Committee)  Richard R. Barrera Cheryl F. Campbell William D. Johnson Michael J. Leffell Dominique Mielle Meridee A. Moore Kristine M. Schmidt Andrew M. Vesey (Utility Executive Committee only)	Exercise powers and perform duties of the applicable Board subject to limits imposed by state law.
Finance (PG&E Corporation)	Richard R. Barrera (Chair)  Cheryl F. Campbell Fred J. Fowler Meridee A. Moore William L. Smith	<p>Oversees matters relating to financial and investment planning, policies, and risks, including:</p> <ul style="list-style-type: none"> <li>• Strategic plans and initiatives;</li> <li>• Financial and investment plans and strategies; and</li> <li>• Dividend policy.</li> </ul>

Committee	Membership	Description
Nominating and Governance (PG&E Corporation)	Michael J. Leffell (Chair) Meridee A. Moore Kristine M. Schmidt John M. Woolard	Oversees matters relating to selection of directors and corporate governance, including: <ul style="list-style-type: none"> <li>• Recommending Board candidates, including reviewing skills and characteristics required of Board members;</li> <li>• Selection of the chairmanship and membership of Board committees, and the nomination of a lead director of each company's Board, if necessary;</li> <li>• Corporate governance matters, including the companies' governance principles and practices, and the review of shareholder proposals; and</li> <li>• Evaluation of the Boards' performance and effectiveness.</li> </ul>
Safety and Nuclear Oversight (PG&E Corporation and the Utility)	Cheryl F. Campbell (Chair) Jeffrey L. Bleich Nora Mead Brownell Fred J. Fowler Eric D. Mullins Kristine M. Schmidt William L. Smith	Oversee matters relating to safety, operational performance, and compliance issues related to the Utility's nuclear, generation, gas and electric transmission, and gas and electric distribution operations and facilities ("Operations and Facilities"), including: <ul style="list-style-type: none"> <li>• Principal risks arising out of the Operations and Facilities, the process used by management to analyze and identify those risks, and the effectiveness of programs to manage or mitigate those risks;</li> <li>• The Utility's goals, programs, policies, and practices with respect to promoting a strong safety culture; and</li> <li>• Periodically visiting the Utility's nuclear and other operating facilities.</li> </ul> <p>The SNO Committees also will oversee the progress of the Wildfire Safety Program, and regularly report on such progress to the full Boards (a responsibility being transitioned from the Compliance and Public Policy Committee).</p>

1 PG&E's Corporate Governance Guidelines ensure that the governance  
2 and committee structure is dynamic and agile. The various Board  
3 committees also work together, coordinating on matters that cut  
4 across the purviews of different committees, including holding joint  
5 committee meetings.

#### 6 **4. Governance-Related Practices of the Boards**

7 PG&E as a matter of policy adheres to robust Board-level governance  
8 best practices in numerous additional respects, including:

- 1 • PG&E's current Corporate Governance Guidelines require at least  
2 75 percent of the directors to be independent, consistent with the best  
3 practices described above. At present, however, *all* directors are  
4 independent except for Mr. Johnson who sits on both Boards and  
5 Mr. Vesey who sits on the Utility's Board. PG&E intends that, going  
6 forward, all directors will be independent except for the companies'  
7 CEOs.
- 8 • Both the PG&E Corporation and Utility Board Chairs are independent  
9 directors. This is consistent with best practices.<sup>24</sup>
- 10 • All committee Chairs are independent directors, as are all committee  
11 members (except that Mr. Johnson is a member of the Boards'  
12 respective Executive Committees, and Mr. Vesey is a member of the  
13 Utility Board's Executive Committee). Again, this is consistent with the  
14 best practices described above.
- 15 • Board members have one-year terms, thereby maximizing their  
16 accountability to shareholders and other stakeholders.<sup>25</sup> PG&E  
17 considered and decided against classified Boards whose members  
18 would stand for reelection on a staggered basis less frequently than

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<sup>24</sup> See CalPERS, *supra*, at 11 ("The board should be chaired by an independent director."); CalSTRS, *supra*, at 5 (same).

<sup>25</sup> See, e.g., BlackRock, *supra*, at 5 ("[D]irectors should be re-elected annually ..."); CalPERS, *supra*, at 10 ("Every director should be elected annually. Accountability mechanisms may require directors to stand for election on an annual basis ..."); CalSTRS, *supra*, at 6 ("CalSTRS supports annual election of all directors and believes directors should be accountable to the shareholders they represent and therefore should stand for election every year."); UK Code at 8 ("All directors should be subject to annual re-election.").

1 annually, because classified boards generally are thought to reduce  
2 accountability and therefore to be inconsistent with best practices.<sup>26</sup>

- 3 • The Boards currently exceed the gender diversity requirement of  
4 Corporations Code § 301.3, in that five directors are women. The  
5 Boards also are racially diverse. This is consistent with the best  
6 practices described above.
- 7 • Thirty-six percent of the current Board of PG&E Corporation, and 40% of  
8 the current Board of the Utility, are California residents. PG&E intends to  
9 use its best efforts to achieve a target of at least 50 percent California  
10 resident directors at Chapter 11 emergence.
- 11 • As noted, Board and committee performance is evaluated periodically in  
12 a process led by the Nominating and Governance Committee. This  
13 process typically includes one-on-one interviews with each director about  
14 the performance of the Boards and of the committees. This is consistent  
15 with the best practices described above.
- 16 • Board and/or committee meetings are regularly attended by senior  
17 management, including the PG&E Corporation and Utility CEOs, the  
18 Chief Ethics and Compliance Officer, the Chief Safety Officer, and the  
19 Chief Risk Officer. The Boards and certain of their committees also  
20 receive regular reports from these officers concerning establishment of  
21 and performance on safety, compliance, ethics, and risk metrics  
22 (including, in some cases and as appropriate, reports on any significant  
23 delays or lack of cooperation by managers in obtaining information  
24 necessary for the preparation of the reports).

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<sup>26</sup> See, e.g., BlackRock, *supra*, at 5 (“[C]lassification of the board dilutes shareholders’ right to promptly evaluate a board’s performance and limits shareholder selection of directors.”); CalSTRS, *supra*, at 6 (“The board is expected to be declassified and not have staggered terms.”); Glass Lewis, *An Overview of the Glass Lewis Approach to Proxy Advice*, at 15 (2020) (Exh. 11 hereto) (“[W]e may recommend that shareholders vote against the chair of the governance committee, or the entire committee, where the board has amended the company’s governing documents to reduce or remove shareholder rights ... . Examples ... include ... the adoption of a classified board structure ... .”); Institutional Shareholder Services Inc., *United States Proxy Voting Guidelines Benchmark Policy Recommendations*, at 12-13 (Nov. 2019) (Exh. 12 hereto) (describing as “[p]roblematic” “[a] classified board structure” or if “[t]he company has opted into, or failed to opt out of, state laws requiring a classified board structure”).

- 1           • As described more fully below, the Boards’ respective Audit Committees  
2           annually review enterprise risks (with oversight of specific risk categories  
3           allocated to various Board committees in accordance with their specific  
4           charters—an allocation that is reviewed annually). The Audit  
5           Committees, the SNO Committees, and the Compliance and Public  
6           Policy Committee hold semi-annual joint meetings so as to coordinate  
7           activities, learning, and oversight.
- 8           • New Board members receive information and training on subjects that  
9           will assist them in discharging their duties. For example, in April 2019,  
10          the Boards had a two-day on-boarding session and Board meeting  
11          during which newly added directors and the continuing directors met with  
12          PG&E officers to, among other things, discuss the overall context for  
13          PG&E’s current situation, share key information, establish the Boards’  
14          governance framework, and discuss areas of focus. More recently,  
15          Messrs. Smith and Woolard had a similar onboarding session that  
16          included a visit to PG&E’s Emergency Operations Center used during  
17          the recent PSPS events. The Boards also receive recurring safety  
18          training apart from the onboarding process, including information on  
19          applicable safety and regulatory standards. This is all consistent with  
20          best practices.<sup>27</sup>
- 21          • The PG&E Corporation Board has adopted proxy access bylaw  
22          provisions that permit shareholders owning at least 3 percent of the  
23          outstanding common stock for at least three years to nominate the  
24          greater of two directors or 20 percent of the PG&E Corporation Board,

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<sup>27</sup> See, e.g., NACD, *Building the Strategic-Asset Board*, at 16 (2016) (“Onboarding processes help support continuous improvement on the board by enabling new directors to quickly engage and become active contributors to boardroom deliberations.”).



1 and to include such nominees in the PG&E Corporation proxy materials.  
2 This is consistent with best practices.<sup>28</sup>

- 3 • PG&E's Corporate Governance Guidelines prescribe specific rules  
4 regarding service on other boards, consistent with best practices.<sup>29</sup>  
5 Directors who are considering service on the board of a public company  
6 other than PG&E Corporation and its subsidiaries (including the Utility)  
7 must notify the Chair of the Nominating and Governance Committee and  
8 the Chair of each Board before accepting membership on any such  
9 outside board. Also, unless otherwise approved by PG&E Corporation's  
10 Board of Directors and/or the Utility's Board of Directors (as applicable),  
11 (i) a director may not serve on more than three public company boards in  
12 addition to the Boards of PG&E Corporation and its subsidiaries  
13 (including the Utility); and (ii) a director who is the principal executive  
14 officer of a public company (including PG&E Corporation and the Utility)  
15 may not serve on more than two public company boards in addition to  
16 the board of his or her employer.<sup>30</sup>

17 Notably, in the ongoing Safety Culture OII and other venues, the  
18 Commission, parties, and commentators have suggested that PG&E adopt,  
19 or urged it to adopt, certain corporate governance measures that PG&E  
20 already had adopted. For example, the Scoping Memo in the Safety Culture  
21 OII asked whether PG&E should "form an independent nominating  
22 committee to identify and select candidates for the Board of Directors," and  
23 whether PG&E should "identify specific criteria for potential Board of

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<sup>28</sup> See BlackRock, *supra*, at 16 ("We believe that long-term shareholders should have the opportunity, when necessary and under reasonable conditions, to nominate directors on the company's proxy card."); CalSTRS, *supra*, at 14 ("Companies should allow shareholder access to the director nomination process and to the company's proxy statement. Generally, CalSTRS believes that a long-term investor or group of investors owning in aggregate at least three percent of the company's voting stock for three years should be able to nominate the lessor of 2 directors or 25 percent of the number of directors outlined in the company's current proxy statement for the annual election of directors.").

<sup>29</sup> See BlackRock, *supra*, at 3 (stating that "a director [should not] serve[] on an excess number of boards, [because this] may limit his/her capacity to focus on each board's requirements"); UK Code at 7 ("Additional external appointments should not be undertaken without prior approval of the board ...").

<sup>30</sup> For purposes of this policy, the Boards of PG&E Corporation and its subsidiaries (including the Utility) are considered one board.



1 Directors members.”<sup>31</sup> As noted above, PG&E Corporation’s independent  
2 Nominating and Governance Committee fills this role, including development  
3 and ongoing evaluation of the director skills matrix. The Scoping Memo also  
4 asked whether PG&E should “form an audit committee constituted of  
5 independent directors possessing safety and financial expertise ... to  
6 evaluate the Board of Directors’ discharge of their duties and make  
7 recommendations for qualifications of future members of PG&E’s Board of  
8 Directors.”<sup>32</sup> As noted, PG&E Corporation’s Nominating and Governance  
9 Committee performs these functions. Also, the SNO Committees, whose  
10 members possess deep safety expertise, are involved in safety matters.  
11 The Audit Committees also are involved with safety issues, including the  
12 allocation of risk oversight across committees and ensuring appropriate  
13 coordination among committees.

14 PG&E Corporation’s scores on a standardized global assessment of  
15 sound governance confirm the quality of its Board-level governance.  
16 Institutional Shareholder Services Inc., a leading provider of corporate  
17 governance research, assigns “QualityScores” to companies’ governance.  
18 With scores ranging from 1 to 10, a score in the higher deciles (with “1”  
19 being the highest) indicates relatively higher quality governance practices  
20 and relatively lower governance risk. As of January 9, 2020, PG&E  
21 Corporation has a “1” for its overall QualityScore across various metrics,  
22 including a subscore of “1” for board structure—the highest scores possible.  
23 By contrast, as of the same date, the average publicly reported scores for  
24 14 peer utility companies were much worse: 3.57 overall and 5.29 for  
25 board structure.

26 The Boards recognize that as circumstances change, the companies’  
27 needs change. Accordingly, the Boards expect that as the companies  
28 emerge from Chapter 11, a number of the current directors will depart and  
29 be replaced, consistent with the companies’ bylaws. In accordance  
30 with the requirements under the Bankruptcy Code for confirmation of a  
31 Chapter 11 plan, PG&E will disclose prior to a Chapter 11 plan confirmation

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<sup>31</sup> Assigned Commissioner’s Scoping Memo and Ruling, I.15-08-019, at 10 (Dec. 21, 2018).

<sup>32</sup> *Id.*

1 hearing the identity and affiliations of any individual it proposes to serve as a  
2 director of the post-emergence reorganized Utility.

3 **E. The Boards' Oversight of Safety, Risk, Compliance, and PSPS**

4 My testimony above primarily concerns the Boards' structures, policies, and  
5 practices in general. My testimony below focuses specifically on actions the  
6 new Boards have undertaken and changes they have implemented with respect  
7 to oversight of the related areas of safety, risk, compliance, and PSPS.

8 **1. The Boards' Oversight of Safety, Risk, and Compliance**

9 The Boards view customer and workforce safety as PG&E's first and  
10 highest imperative. The Boards firmly believe that safety is job one because  
11 safety is the right thing to do, period.

12 Safety also is critical to PG&E's long-term financial stability as it  
13 emerges from Chapter 11. Safety and financial performance go hand in  
14 hand at PG&E. Strong safety performance is vital for solid financial  
15 performance, and conversely, strong financial performance is necessary to  
16 fund safety improvements such as system hardening. For example, a  
17 catastrophic public safety event can have a devastating effect on the  
18 companies' financial performance, as demonstrated by the current  
19 Chapter 11 proceedings and the substantial decline in PG&E Corporation's  
20 stock price since the 2017 and 2018 wildfires. Conversely, poor financial  
21 performance can, at a minimum, increase the costs of the capital needed to  
22 fund safety investments—increased costs that are passed on to customers.  
23 Extended poor financial performance also can lead to an inability to raise  
24 capital or fund programs, a loss of talent, and a need to increase rates.

25 The following summarizes some of the structural and other reforms the  
26 Boards implemented in 2019 to enhance oversight of safety, risk, and  
27 compliance:

28 Oversight of the EORM Program: The Boards have taken steps to  
29 enhance PG&E's EORM program, which identifies, analyzes, evaluates,  
30 monitors, and mitigates risks that might prevent PG&E from achieving its  
31 fundamental objective of delivering safe, reliable, affordable, and clean  
32 energy to its customers. Under the EORM program, improved data and  
33 advances in quantitative risk assessment not only have benefited

1 management in carrying out its day-to-day risk management activities, but  
2 also have given the Boards a clearer view of the risks and empowered them  
3 to provide better oversight. As the EORM program improves, the full Boards  
4 receive periodic updates that include progress made, challenges being  
5 addressed, and next steps.

6 The new Boards developed a broad understanding of PG&E's top risks  
7 and the elements of the EORM program. They requested additional  
8 information about the history and trajectory of the risk program and  
9 discussed the program during formal Board meetings and multiple in-person  
10 and telephonic meetings with senior management. After the new Boards  
11 obtained an understanding of the EORM program, they took specific steps  
12 to improve it. For example, after the Boards received descriptions of the  
13 primary challenges the EORM team was facing, the Boards identified certain  
14 themes, such as challenges with data collection, and helped the EORM  
15 team think through potential strategies to address each topic systematically.  
16 The Boards then established targets for those areas and followed up with  
17 the EORM team to track progress.

18 Below are additional examples of changes the Boards recently have  
19 implemented to improve risk management:

- 20 • The Boards have imposed additional rigor around risk reporting,  
21 endorsing the use of the Bowtie Analysis<sup>33</sup> as a standard way of  
22 quantitatively evaluating risk and communicating the key drivers of risk,  
23 the performance of critical controls, and the effectiveness of risk  
24 reduction activities. The Boards have made clear that they expect risk  
25 presentations to include, at a minimum: (i) a deep dive view of the risk or  
26 risk topic centered on a Bowtie Analysis; (ii) metrics that illustrate  
27 progress and effectiveness of mitigations over time; and (iii) descriptions  
28 of any associated open high-risk audit items.
- 29 • The Boards have imposed additional accountability for risk matters.  
30 They have required that each "enterprise risk" on PG&E's "risk register"

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<sup>33</sup> A Bowtie Analysis is a recognized method of risk analysis that has developed over the course of several decades in the oil, gas, and other industries. It uses the historical frequency of known risk drivers to determine the probability of risk event occurrence and to understand the potential consequences of such occurrence.

1 have an identified “risk owner” who provides a progress update at least  
2 once every 12 months. (An “enterprise risk” is a risk that could prevent  
3 PG&E from fulfilling its mission of safely and reliably delivering affordable  
4 service, and the “risk register” is currently a list of 36 such risks identified  
5 through the EORM program.)

- 6 • The Boards have directed management to focus on developing the right  
7 data sources to better inform decision-making and to make clear when  
8 risk mitigation decisions are data-driven or based on subject-matter  
9 expertise. If decisions are data-driven, the Boards have asked  
10 management to communicate the level of confidence in the data used for  
11 the decision and how management is working to improve it, as  
12 necessary.
- 13 • The Boards have requested a view of spend by risk and, to the extent  
14 possible with current modeling techniques, the risk reduction value of  
15 that spend. This information will be useful in optimizing spend across all  
16 risks on PG&E’s risk register.
- 17 • The Boards have encouraged management to seek alternative  
18 perspectives on how risk management is organizationally structured,  
19 how the EORM program compares to out-of-industry best practices such  
20 as the practices of airlines and other non-utility entities, and the quality of  
21 the staff performing risk management functions.
- 22 • The Boards have set targets for management to address and close high-  
23 risk audit items more quickly. The status of improvement activities is  
24 now tracked at the senior leader level, and performance is presented at  
25 the Board level.

26 Creation of the ISOC: The Boards have supported the creation of the  
27 Independent Safety Oversight Council (ISOC), which is described in detail in  
28 Mr. Vesey’s testimony submitted herewith. In brief, the ISOC is modeled on  
29 independent safety oversight committees that have been established and  
30 used with success in the areas of nuclear power and dam operations. It will  
31 provide independent oversight and review of the Utility’s operations,  
32 including safety and regulatory compliance, safety leadership, and  
33 operational performance. ISOC members will conduct field visits,  
34 interviews, and observations as necessary to evaluate areas of

1 responsibility, as well as reviews of documentation relating to safety  
2 performance. It will meet regularly and prepare reports highlighting  
3 performance for particular periods, including an annual performance  
4 evaluation. The ISOC began its work in December 2019 and initially  
5 focused on electric operations wildfire safety. It will scale throughout 2020  
6 such that every area of the business is covered by a safety assurance  
7 function.

8 The ISOC is chaired by Christopher Hart, the immediate past chair of  
9 the National Transportation Safety Board, and is comprised of members with  
10 deep technical safety expertise in a diverse range of relevant areas such as  
11 wildfire safety. Such members currently include Mr. Randy Lyle (former  
12 Battalion Chief with the California Department of Forestry and Fire  
13 Protection, and wildfire mitigation program manager with San Diego Gas &  
14 Electric Company), Ms. Lynn Walter (veteran of multiple safety review  
15 boards across the utility industry), Mr. Frank Gallaher (former chief operating  
16 officer of Entergy with over 40 years of utility experience), and Mr. Gus  
17 Ponce (senior director at Exelon with more than 40 years of experience in  
18 electric transmission and distribution operations). All of the ISOC's  
19 members besides Mr. Hart are external to PG&E.

20 The ISOC's reports and recommendations, and any responses from the  
21 lines of business, will be provided to the SNO Committees and the full  
22 Boards. The ISOC will be a useful independent resource to management  
23 and the Boards going forward.

24 Effective Interactions With Management: NorthStar emphasized the  
25 importance of the Boards engaging with and challenging management.<sup>34</sup>  
26 The new Boards have sought to more effectively implement this. For  
27 example, the new Boards have established guidance that presentations to  
28 the Boards should address the key takeaways up front and take no more  
29 than 50 percent of the allotted time to leave time for dialogue and questions.  
30 The new Boards also have taken a proactive, probing approach—for  
31 example, asking management how confident it is in risk-related data, asking  
32 management how it is working to improve data quality, and asking

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<sup>34</sup> See, e.g., NorthStar First Update at III-58.

1 management to seek out alternative perspectives on a variety of safety- and  
2 risk-related matters. The Boards also are working with management to  
3 identify ways to ensure that the companies achieve greater operational  
4 efficiency and financial discipline to enhance value to customers while  
5 continuing to advance the State's climate and other policy goals.

6 Consultations With the Federal Monitor: The Boards have met with the  
7 Utility's Federal Monitor to obtain his perspectives on safety, risk, and  
8 compliance issues, and Board meetings frequently have been attended by  
9 the Monitor or his delegates. Topics discussed include safety culture, the  
10 process of evaluating the Wildfire Safety Program, data collection and  
11 reporting relating thereto, and the overall process of the Monitor's review  
12 and provision of feedback to the Boards. The independent directors  
13 as a group, as well as individual Board members (Ms. Campbell and  
14 Ms. Schmidt), have met with the Monitor and his team in executive session  
15 without management present.

16 Creation of the Independent Safety Advisor: The Boards have supported  
17 the addition of an Independent Safety Advisor following the earlier of  
18 (i) expiration of the Utility's current criminal probation arising from the  
19 San Bruno tragedy; and (ii) termination of the Federal Monitorship. The  
20 Independent Safety Advisor will have proven expertise and experience in  
21 natural gas storage distribution and transmission safety, wildfire safety and  
22 mitigation, utility vegetation management and electric system infrastructure,  
23 electric system emergency procedure and operations, and public and  
24 workforce safety.<sup>35</sup> The Independent Safety Advisor will review PG&E's  
25 compliance and progress with respect to natural gas operations safety, and  
26 wildfire and other disaster mitigation activities, including vegetation  
27 management programs, reliability and hardening programs (both electrical  
28 infrastructure and microgrid implementation), risk analysis, implementation  
29 of mitigation measures (including the use of and effectiveness of PG&E's  
30 Emergency Operations Center and PSPS), public and workforce safety, and  
31 programs to assure compliance with safety and operational metrics. The

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<sup>35</sup> The Independent Safety Advisor could be more than one person as necessary to ensure the requisite expertise.

1 Independent Safety Advisor will provide quarterly (or more frequent) reports  
2 to the SNO Committees (as well as the Chief Risk Officer and Chief Safety  
3 Officer) regarding findings concerning PG&E's operations and compliance  
4 with safety and operational metrics, and the status of remedial actions to  
5 address any deficiencies previously identified.<sup>36</sup>

6 Oversight of Compliance: The Boards regularly receive reports  
7 regarding compliance issues, including reports from the Chief Ethics and  
8 Compliance Officer regarding the Utility's probation and interactions with the  
9 Federal Monitor. The Boards receive and address compliance reports both  
10 with and without executives present. The Boards also review ethics  
11 complaints.

12 Generally speaking, the Boards undertake the activities described above  
13 through or in conjunction with the Boards' committees, which are integral to  
14 the Boards' oversight of safety, risk, and compliance. The Audit  
15 Committees, the SNO Committees, and the Compliance and Public Policy  
16 Committee are the principal committees that work together to help ensure  
17 proper oversight in these areas. These committees meet jointly at least  
18 twice a year to coordinate their efforts and to ensure that significant issues  
19 are being reviewed appropriately. They also frequently meet with the  
20 Federal Monitor or his delegates. The committees' written charters  
21 (included in Exhibits 13 through 22 hereto) ensure that the committees have  
22 the appropriate authority and funding to carry out their respective  
23 responsibilities, and the charters also formalize requirements for regular  
24 reports and communications from senior management.

25 Below is a summary of some of the activities of the Audit, SNO, and  
26 Compliance and Public Policy Committees in these areas:

27 The Audit Committees: The Audit Committees receive periodic updates  
28 from the EORM team and review the updates in committee meetings and  
29 pre-meetings. The Audit Committees receive regular reports from the Chief

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<sup>36</sup> After the federal Monitorship ends, PG&E will evaluate the ISOC's effectiveness and consider whether changes are appropriate. PG&E may evaluate, for example, whether the Independent Safety Advisor should be an evolution from the ISOC or instead be structured as a more external role akin to the Monitor model. Such evaluation could result in modifications to the precise functions of the Independent Safety Advisor as described herein.



1 Risk Officer, who upon emergence from Chapter 11 will report to the Audit  
2 and SNO Committees (as well as the PG&E Corporation CEO). The Audit  
3 Committees' chair and internal auditors set aside dedicated time at each  
4 Audit Committee meeting to review and discuss any high-risk issues one-by-  
5 one, as well as the number of open high-risk issues and their respective  
6 tenures. The Audit Committees also review the guidelines and policies that  
7 govern PG&E's risk management activities.

8 Each Audit Committee regularly reports to its respective Board on its  
9 deliberations and actions taken. The Audit Committees also annually  
10 receive and review a report summarizing the primary categories of risk  
11 management activities and allocate oversight for specific enterprise risks  
12 and "enterprise risk topics" (cross-cutting risk drivers or controls associated  
13 with one or more enterprise risks) among various Board committees. This  
14 allocation generally has assigned oversight of safety risks to the SNO  
15 Committees.

16 The SNO Committees: The SNO Committees exercise general Board-  
17 level oversight of safety matters. Their members have deep safety and  
18 utility operating experience to allow them to fulfill this role effectively. In fact,  
19 SNO Committee members' expertise was recognized by the Executive  
20 Director of the Commission when she recently issued an initial safety  
21 certification to the Utility pursuant to AB 1054, finding that the Utility "has  
22 met all the relevant requirements of PU Code § 8389, regarding its Initial  
23 Safety Certification,"<sup>37</sup> including documentation that the Utility has  
24 "established a safety committee of its board of directors composed of  
25 members with relevant safety experience."<sup>38</sup>

26 The SNO Committees generally centralize oversight of all safety issues,  
27 consistent with NorthStar's recommendation to move to greater integration  
28 of safety functions given that safety is an enterprise-wide issue. For  
29 example, the SNO Committees' purview includes oversight of wildfire safety,

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<sup>37</sup> Aug. 23, 2019 Ltr. from CPUC Executive Director Alice Stebbins.

<sup>38</sup> Pub. Util. Code § 8389(e)(3). The Executive Director also found that the Utility had complied with all other requirements for an initial safety certification, including documentation that the Utility has "agreed to implement the findings of its most recent safety culture assessment" and "established board-of-director-level reporting to the commission on safety issues." *Id.* § 8389(e)(2), (e)(5).



1 gas safety, nuclear safety, and workforce safety, rather than dividing these  
2 distinct but related areas across different committees. The SNO  
3 Committees also have oversight responsibility for risks related to climate  
4 change, cyber-security, emergency response, and records management.

5 PG&E intends to ensure even greater centralization of safety oversight  
6 going forward by ensuring that the SNO Committees' purviews include the  
7 following:

- 8 • PG&E's development, implementation, and compliance with its wildfire  
9 mitigation plan and associated expenditures (a responsibility currently  
10 residing in part with the Compliance and Public Policy Committee);
- 11 • PG&E's wildfire and other natural disaster mitigation activities, including  
12 vegetation management programs, reliability and hardening programs  
13 (both electrical infrastructure and microgrid implementation), risk  
14 analysis, and prioritization of implementation of mitigation measures  
15 (including the use of and effectiveness of the Emergency Operations  
16 Center and PSPS);
- 17 • PG&E's commitment to narrow the scope of PSPS events, including  
18 through the deployment and utilization of additional sectionalizing  
19 devices, additional weather stations, and microgrids;
- 20 • PG&E's commitment to improve its execution of any necessary PSPS,  
21 including the commitments summarized in Part E.2 below; and
- 22 • PG&E's response to the recommendations of the Independent Safety  
23 Advisor.

24 Senior management regularly provides reports to the SNO Committees  
25 concerning comprehensive safety plans and other matters. Both the Chief  
26 Risk Officer and the Chief Safety Officer, who will report to the PG&E  
27 Corporation CEO, also will report to the SNO Committees (and in the case  
28 of the Chief Risk Officer, the Audit Committees). The Chief Safety Officer  
29 will provide to the SNO Committees, among other things: (i) monthly reports  
30 regarding key performance metrics relating to workforce safety;  
31 (ii) recommendations for changes to work practices to improve safety  
32 performance; and (iii) annual presentations regarding the overall workforce  
33 safety plan; the processes, procedures and budgets for achieving desired  
34 workforce safety metrics; and a plan for monitoring performance and

1 enabling interim actions to modify the plan to improve safety performance as  
2 necessary. Also, once the Independent Safety Advisor structure is  
3 implemented, the Advisor will provide safety-related reports to the SNO  
4 Committees on at least a quarterly basis.

5 The SNO Committees also have robust additional tools to carry out their  
6 functions. They have authority, for example, to request additional reports  
7 from any other member of senior management and are entitled to any  
8 reasonable funds to carry out their functions. They also have authority to  
9 hire third-party safety and utility operations experts. The Committees also  
10 are empowered to act independently of other Board committees, subject to  
11 applicable legal restrictions and stock exchange standards. The SNO  
12 Committees have used the foregoing tools by, for example, increasing their  
13 understanding of key safety risk drivers through requesting, reviewing, and  
14 discussing additional information related to injuries during extended work  
15 hours, frequently injured employees and leaders, and other items of safety  
16 trend information. The SNO Committees also have requested, reviewed,  
17 and discussed information regarding the location of gas pipelines in high  
18 wildfire threat areas, inline inspections of such lines, and risks associated  
19 with such lines.

20 The Compliance and Public Policy Committee: The Compliance and  
21 Public Policy Committee coordinates the compliance-related oversight of the  
22 various committees of the Boards, including with respect to PG&E's  
23 compliance and ethics programs; its compliance with laws, regulations, and  
24 internal policies and standards; and internal or external compliance reviews  
25 or audits.<sup>39</sup> The Compliance and Public Policy Committee works with  
26 management (including the Chief Ethics and Compliance Officer, who  
27 functionally reports to the Committee) to regularly review and discuss  
28 compliance and ethics issues, including reported compliance violations and  
29 employee misconduct. The Committee facilitates the Boards' regular receipt  
30 of appropriate reports and materials from management. The Committee  
31 also oversees public policy, sustainability, and corporate responsibility

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<sup>39</sup> The SNO Committees oversee matters relating to compliance with respect to the Utility's nuclear, generation, gas and electric transmission, and gas and electric distribution operations and facilities.

1 issues that could affect customers, shareholders, or employees. The  
2 Committee regularly reports to the full Boards regarding its deliberations and  
3 actions taken, and provides periodic reports to the Audit Committees  
4 regarding compliance oversight and related matters.

5 The Compliance and Public Policy Committee, the SNO Committees,  
6 and the new Boards as a whole recognize that compliance and safety are  
7 related but not synonymous. The committees and the Boards repeatedly  
8 have stressed to management that, in many areas, compliance is not  
9 enough—i.e., that PG&E often must go beyond minimum legal, regulatory,  
10 or operating standards to keep customers, communities, and workers safe.  
11 The committees and the Boards intend to continue to make this an important  
12 part of driving improvements to PG&E's safety culture and performance.

## 13 **2. The Boards' Oversight of PSPS Issues**

14 The Boards recognize that although PSPS events can be necessary to  
15 prevent catastrophic wildfires—thereby preserving life and property—they  
16 are highly disruptive for customers such that it is important to reduce their  
17 incidence and impacts while keeping customers and communities safe. The  
18 Boards are pleased that when the Utility coordinated the massive  
19 undertaking of multiple PSPS events in October 2019, it did so without any  
20 major workforce injuries in connection with such events. The Boards  
21 acknowledge that the Utility's execution of those PSPS, though imperfect,  
22 improved during the short timeframe over which they occurred, including  
23 with respect to customer accessibility and better coordination with state and  
24 local authorities.

25 The Boards are regularly informed of when a PSPS is planned or  
26 contemplated and receive reports after a PSPS on what occurred.  
27 Numerous Board members spent time in the Utility's Emergency Operations  
28 Center, including during the 2019 PSPS events. Ms. Schmidt and I also  
29 attended meetings with representatives of state and local officials (including  
30 the Governor's Office of Emergency Services and the California Department  
31 of Forestry and Fire Protection) to discuss what occurred, what worked well,  
32 and what can be done better in the future. Ms. Schmidt and I also met with  
33 the Sonoma County Farm Bureau, and tribal representatives in Sonoma and  
34 Humboldt Counties, in November 2019 to get their post-event feedback.

1 The Boards' principal focus at this time in connection with PSPS is on  
2 overseeing investment in tools, equipment, training, system modifications,  
3 and personnel to improve safety and reliability of the system. The Boards  
4 also intend to oversee the Utility's fulfillment of the commitments it made  
5 following the October 2019 PSPS events, including:

- 6 • Narrowing the scope of PSPS events through measures such as  
7 additional sectionalizing devices (which allow areas unaffected by  
8 adverse weather to remain energized) and additional weather stations to  
9 provide more precise local data;
- 10 • Promoting microgrids;
- 11 • Reinforcing the website and call centers to handle a much higher volume  
12 during PSPS events;
- 13 • Improving the quality and accessibility of outage maps;
- 14 • Strengthening coordination with government agencies, including the  
15 Commission, the Governor's Office of Emergency Services, the  
16 California Department of Forestry and Fire Protection, cities and  
17 counties, and tribal governments; and
- 18 • Promoting customer options and improving outreach to vulnerable  
19 customers.

#### 20 **F. The Boards' Commitment to Transparency**

21 The Boards are committed to being open and transparent with the  
22 Commission, and with shareholders, customers, and other stakeholders. The  
23 Boards have taken a number of actions in recent months that underscore this  
24 commitment. For example, as discussed above, the Boards, committees, and  
25 individual Board members have met frequently with the Federal Monitor or his  
26 delegates. The PG&E Corporation Board's then-current Chair also accepted the  
27 Commission's invitation to attend the April 15, 2019 public workshop in the  
28 Safety Culture OII to discuss the Board nomination process, the Board  
29 refreshment process, the qualifications of PG&E's new Board members, and  
30 related matters. As noted, PG&E also submitted a detailed Compliance Filing  
31 on July 3, 2019 that sets out each director's (i) safety-specific education and  
32 training; (ii) direct, supervisory, or management-level safety-specific work  
33 experience; (iii) safety-specific board of directors' experience; (iv) other previous  
34 and current board positions; and (v) other professional commitments. PG&E

1 also will be submitting non-confidential portions of Board and SNO Committee  
2 minutes to the Commission's Safety and Enforcement Division on a going-  
3 forward basis. Additionally, non-privileged portions of Board and Board  
4 committee meetings will be open to the Independent Safety Advisor once the  
5 Independent Safety Advisor is installed following termination of the Utility's  
6 probation or Federal Monitorship.

7 The Utility and its operations also are subject to extraordinary levels of  
8 oversight from a myriad of state agencies at significant cost to customers. In  
9 2019 alone, at least 18 bills were signed into law that directly or indirectly place  
10 additional regulatory requirements and/or oversight on various companies  
11 including PG&E (or authorize agencies to impose such additional  
12 requirements).<sup>40</sup> Such agencies include the Commission (including the newly  
13 created Wildfire Safety Division); the Attorney General; the Air Resources Board;  
14 the Division of Oil, Gas and Geothermal Resources; the Energy Resources and  
15 Conservation Development Commission; the State Fire Marshall; and the  
16 Department of Forestry and Fire Protection. Topics covered include, among  
17 others, security around natural gas storage wells, leaks from such wells,  
18 plugging and abandonment of wells, website accessibility, data privacy,  
19 construction and design specifications, residential rate tariffs and programs,  
20 commercial motor vehicle emissions, undergrounding in connection with wildfire  
21 mitigation plans, PSPS, and vegetation management.

22 PG&E also has, at substantial cost, undertaken a number of very significant  
23 regulatory commitments and resolved a number of recent regulatory  
24 proceedings, some of which are summarized in Exhibit 23 hereto. PG&E  
25 provides a more complete description of commitments and obligations arising  
26 from regulatory and criminal proceedings in the testimony of Julie Kane filed  
27 herewith. As described in my testimony above, PG&E's new Boards and senior  
28 management have made and are making numerous reforms to strengthen and  
29 drive continual improvements to PG&E's safety culture and performance.

30 The Boards also are open to additional proposals for further increasing  
31 appropriate transparency and contact between Board members and other

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<sup>40</sup> These bills include AB 25, AB 1026, AB 1054, AB 1057, AB 1083, AB 1166, AB 1362, Senate Bill (SB) 44, SB 49, SB 70, SB 155, SB 167, SB 190, SB 247, SB 463, SB 551, SB 560, and SB 676.

1 stakeholders. The Boards are willing, for example, to hold regular meetings with  
2 stakeholders, including customers. The Boards are open to other constructive  
3 suggestions as well.

**PACIFIC GAS AND ELECTRIC COMPANY**  
**CHAPTER 5**  
**UTILITY SAFETY AND GOVERNANCE [SM 3.1, 3.4]**

PACIFIC GAS AND ELECTRIC COMPANY  
CHAPTER 5  
UTILITY SAFETY AND GOVERNANCE [SM 3.1, 3.4]

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**PACIFIC GAS AND ELECTRIC COMPANY**  
**CHAPTER 5**  
**UTILITY SAFETY AND GOVERNANCE [SM 3.1, 3.4]**

**A. Executive Summary (A. Vesey)**

Pacific Gas and Electric Company (the Company or the Utility) is rededicating itself to customer welfare under the leadership of a new executive team, which I lead along with William D. Johnson, the Chief Executive Officer (CEO) of PG&E Corporation. PG&E is empowering its senior leadership team, most of whom joined PG&E in the recent past, to drive improvements to safety culture and performance, including the Chief Risk Officer (CRO), the Chief Safety Officer (CSO), and the Chief Ethics and Compliance Officer. PG&E believes that it currently has a strong team in place to lead the enterprise out of Chapter 11 and into a future that is more successful for customers, employees, and other stakeholders.

PG&E's future success depends on a pervasive, day-to-day, and intense focus on protecting and advancing customer and workforce welfare—including through improvements to safety culture and performance—and improving overall customer experience. PG&E's mission is to safely and reliably deliver affordable clean energy to its customers every single day, while building the energy network of tomorrow. To accomplish this mission, PG&E needs to put customers first across all these dimensions. PG&E is actively working to do so through multiple initiatives, including:

- 1) Enhancing PG&E's Enterprise and Operational Risk Management (EORM) program, which quantitatively and systematically identifies key risk drivers and facilitates the mitigation of risk across the enterprise.
- 2) Increasing wildfire safety through various initiatives, such as enhanced vegetation management, increased inspections, and system hardening.
- 3) Developing PG&E's Enterprise Safety Management System (ESMS), which when fully implemented will comprehensively cover how PG&E manages the business of safety and drive continuous learning and continual improvements in safety culture and performance.
- 4) Building on the success of Gas Operations in obtaining International Organization for Standardization (ISO) 55000 certification in 2014 and again

1 in 2017, by having the electric line of business (LOB) work toward such  
2 certification as well. (ISO 55000 is an internationally recognized benchmark  
3 for the prudent management of assets developed by the ISO.) The power  
4 generation LOB likewise is making progress in achieving the ISO 55000  
5 standard in conjunction with its efforts to satisfy an international standard  
6 specifically tailored to dam safety.

- 7 5) Enhancing PG&E's management of change, especially when it comes to  
8 safety and risk.
- 9 6) Using "horizon scanning" to identify and guard against future risks and  
10 "black swan" events.
- 11 7) Bolstering independent oversight in the areas of safety and risk,  
12 including by:
  - 13 i) hiring an Independent Safety Advisor (Christopher Hart, the immediate  
14 past chair of the National Transportation Safety Board (NTSB));
  - 15 ii) creating an Independent Safety Oversight Council (ISOC) chaired by  
16 Mr. Hart and staffed by members with recognized safety expertise  
17 across a range of areas relevant to utility operations;
  - 18 iii) fully embracing and monitoring implementation of all recommendations  
19 of NorthStar Consulting Group ("NorthStar"); and
  - 20 iv) working closely with the Federal Monitor and his staff.
- 21 8) Enhancing PG&E's compliance program, including through high-level  
22 reporting, training, and oversight responsibilities for PG&E's Chief Ethics  
23 and Compliance Officer.
- 24 9) Enhancing PG&E's safety focus by implementing elevated responsibilities  
25 and reporting for the CRO.
- 26 10) Refining PG&E's Enterprise Records and Information Management (ERIM)  
27 program to deploy consistent, integrated processes that better support  
28 records management associated with operational safety, regulatory  
29 compliance, and knowledge management.
- 30 11) Committing to submit verifications to the California Public Utilities  
31 Commission (CPUC or Commission) for the Utility's safety-related filings,  
32 signed by specified senior personnel, to ensure additional accountability  
33 among senior-level personnel as well as transparency and the public's  
34 confidence in PG&E's commitment to safety and reliability.

1 12) Using an incentive compensation program that incentivizes customer  
2 welfare, especially public safety.

3 13) Supporting a regional restructuring initiative, to be implemented in  
4 consultation with the Commission, to bring our operational management  
5 closer to our customers.

6 PG&E also is committed to increasing system reliability, including by  
7 reducing the number of customers impacted by, and the frequency and duration  
8 of, Public Safety Power Shutoff (PSPS) events. PG&E recognizes that, although  
9 PSPS events can be necessary to prevent catastrophic wildfires, they are  
10 extraordinarily disruptive to customers. PG&E also is committed to improving its  
11 execution of any necessary PSPS events going forward.

12 In short, PG&E recognizes that it has a lot of work yet to do, it has a strong  
13 team in place to do it, and it is making significant strides as it works to protect  
14 and advance customer and workforce welfare and safety. PG&E looks forward  
15 to additional progress as it works to continually improve itself in delivering safe,  
16 reliable, affordable, and clean energy to its customers.

17 **B. Introduction (A. Vesey)**

18 My name is Andrew M. Vesey. I am the CEO and President of the Utility,  
19 roles which became effective August 19, 2019. I report to the Utility's Board of  
20 Directors and have responsibility for all aspects of the Utility's operations,  
21 including safety, electric operations, gas operations, generation, and customer  
22 care. I work closely with Mr. Johnson, who in April 2019 was formally appointed  
23 as CEO and President of PG&E Corporation, effective May 1, 2019.

24 My background includes more than 35 years of diverse utility experience,  
25 most recently as the Managing Director and CEO of Sydney-based AGL Energy  
26 Limited, an integrated Australian energy company serving some 3.7 million  
27 electric and natural gas customers and operating 20 percent of the country's  
28 power generation capacity. In that role, I implemented AGL's Greenhouse Gas  
29 Policy, which included a commitment to close AGL's existing coal-fired power  
30 stations within a specified number of years. In addition, I made a strategic  
31 decision at that time to exit AGL's coal seam gas business. During my time as  
32 CEO of AGL, there was a strong improvement in various areas of safety  
33 performance. Through a digital transformation program which I implemented to  
34 upgrade the entire customer experience, we boosted the company's Net

1 Promoter Score by 35+ points. Before leading AGL, I served in a number of  
2 successively greater leadership roles at energy companies such as AES  
3 Corporation, where I was the Chief Operating Officer and Executive Vice  
4 President (EVP), and Entergy Corporation and Niagara Mohawk Power  
5 Corporation, both where I served as a senior leader. I have also worked as an  
6 energy industry consultant at Ernst & Young LLP, where I was a partner in the  
7 Energy, Chemicals and Utilities Practice, and at FTI Consulting, where I was  
8 Managing Director of the Utility Finance and Regulatory Advisory Practice.  
9 I began my career as a system planning engineer at Consolidated Edison in my  
10 native New York, after earning a Master's degree in Applied Science from  
11 New York University and a Bachelor of Science degree in Mechanical  
12 Engineering and a Bachelor of Arts degree in Economics from Union College.

13 I have come to the Utility intent on steering it in new and positive directions  
14 centered around customer and workforce welfare. The Utility obviously has had  
15 a multitude of grave problems in recent years, including the 2010 explosion in  
16 San Bruno, an ensuing federal criminal conviction and probation, the devastating  
17 2017 and 2018 wildfires, and the Chapter 11 filing. I recognize, as do a range of  
18 stakeholder constituencies, that there needs to be change. I believe strongly  
19 that, as described more fully below, the Utility's future success depends on  
20 focusing on customer and workforce welfare in all its dimensions—including,  
21 most critically, safety culture and performance, but also in related areas such as  
22 reliability and affordability.

23 I understand that Assembly Bill (AB) 1054, as codified in Public Utilities  
24 Code § 3292(b)(1)(C), requires the Commission to consider "the reorganization  
25 plan and other documents resolving [the Utility's] insolvency proceeding,  
26 including [whether the Utility's] resulting governance structure [is] acceptable in  
27 light of the [Utility's] safety history, criminal probation, recent financial condition,  
28 and other factors deemed relevant by the commission." My testimony concerns  
29 the governance and operational structure of the Utility, and is designed to assist  
30 the Commission as it evaluates that structure as prescribed by AB 1054. To  
31 ensure compliance with the provisions of AB 1054 referenced above, PG&E will  
32 incorporate into its Plan of Reorganization or related documents the direction the  
33 Commission provides in its decision in this proceeding with regard to Utility  
34 governance.

1 My testimony below is divided into three parts. The first part, above,  
2 provided an executive summary of the substance of my testimony. The second  
3 part discusses key members of senior management at PG&E (including at the  
4 Utility), including recent changes thereto, and PG&E's focus on empowering  
5 leadership in the areas of safety, compliance, and customer care. The third part  
6 surveys the actions taken to reorient the Utility around the mutually supportive  
7 goals of improving safety culture and performance, and improving the customer  
8 experience including through increased system reliability.

9 **C. Empowering Leadership in the Areas of Safety, Risk, Compliance, and**  
10 **Customer Care (A. Vesey)**

11 Following devastating 2017 and 2018 wildfires, many stakeholders called for  
12 substantial changes to PG&E's leadership. PG&E has implemented numerous  
13 such changes to its Boards of Directors and senior management. For example,  
14 as I mentioned, Mr. Johnson and I assumed our respective roles as CEO and  
15 President of PG&E Corporation and the Utility in April and August 2019,  
16 respectively. Of the 13 officers comprising the Utility's C-suite and senior  
17 leadership team, over half are new to the team since late 2017. These  
18 leadership changes have brought a wealth of outside experience and expertise  
19 to the Utility. Highlights of my own experience are described in the introduction  
20 to this chapter. Mr. Johnson's proven track record of leadership on safe utility  
21 operations is highlighted in his testimony in Chapter 1. Ms. Nora Mead  
22 Brownell, the independent non-executive Chair of the Board of PG&E  
23 Corporation whose testimony appears in Chapter 4, is a former Commissioner of  
24 the Federal Energy Regulatory Commission (FERC) and the Pennsylvania  
25 Public Utility Commission, and deeply understands that safety is the most  
26 important job for utility leaders.

27 One of the Utility's actions to improve existing governance of safety culture  
28 is to further empower safety leadership, including the CRO, the CSO, and the  
29 Chief Ethics and Compliance Officer. Achieving a high level of customer  
30 satisfaction, including through the maintenance of reliable service, is the focus of  
31 the Chief Customer Officer and the Senior Vice President (SVP), Electric  
32 Operations. These key leadership roles are described below.

33 In addition, given the importance of the CRO functions to PG&E's overall  
34 efforts to enhance safety, PG&E will give that position even greater visibility and

1 reporting responsibilities as part of its reorganization, as described below. This  
2 enhanced role will be formally established by resolution of the Boards prior to  
3 the effective date of PG&E's Plan, which will remain in effect for at least  
4 five years unless the CPUC determines otherwise. PG&E will consult with the  
5 Governor's office and CPUC regarding the identity of the initial post-emergence  
6 CRO. All executive officers upon emergence, including the CRO, will be  
7 approved by affirmative votes of the Boards. Subsequent appointees to the  
8 CRO role will be appointed by the Executive Committee of the Boards.

9 **Chief Risk Officer – Stephen Cairns.** Stephen Cairns is Vice President  
10 (VP), Internal Audit and CRO for both the Utility and PG&E Corporation. In this  
11 role, Mr. Cairns oversees the following organizations: Internal Auditing,<sup>1</sup> Market  
12 and Credit Risk Management, Third-Party Risk Management, Sarbanes-Oxley  
13 Act compliance, the EORM program (discussed below), and Insurance. The  
14 CRO currently reports directly to the Chief Financial Officer of PG&E  
15 Corporation and also functionally reports to the Audit Committees with respect to  
16 internal audit matters, provides regular reports to the Audit Committees on other  
17 matters, and has executive sessions with the Audit Committee without  
18 management present. The CRO also currently reports the results of all  
19 operational audits to the Safety and Nuclear Oversight (SNO) Committees. He  
20 submits regular written reports to the Boards, and frequently attends Board and  
21 Board committee meetings where he provides further reports and answers  
22 questions from Board and committee members. Post-emergence, the CRO will  
23 have a direct reporting relationship with the CEO of PG&E Corporation.

24 Mr. Cairns has many years of experience in internal audit and risk  
25 management in the utility field. He is a chartered accountant (the equivalent of a  
26 Certified Public Accountant in the United Kingdom) and holds a degree in  
27 Business and Finance from the University of Brighton in England. He began his  
28 career at Ernst & Young in its external audit practice and moved through other  
29 practices including computer audit, internal audit, and business risk consulting,  
30 focusing predominantly on the utility sector. Mr. Cairns then joined  
31 ScottishPower, a United Kingdom-based energy holding company that owned

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1 Internal Auditing focuses its audit plan on assessing the effectiveness of processes and controls to manage the most impactful risks inherent to Utility operations, including safety and compliance risks.



1 utilities in the United Kingdom and United States. There he oversaw all aspects  
2 of internal audit and risk management in both the United Kingdom and United  
3 States. Mr. Cairns joined the Utility in 2006 as Senior Director, Internal Auditing,  
4 and thereafter served as VP and Controller, and VP, Internal Audit and  
5 Compliance.

6 In addition, as noted above, PG&E is elevating the visibility and  
7 responsibilities of the CRO role. The CRO will become an executive-level  
8 management position, reporting directly to the CEO of PG&E Corporation and to  
9 the SNO Committees of the Boards. The CRO will also report directly to the  
10 Audit Committees of the Boards. The CRO will be the enterprise risk officer for  
11 PG&E with oversight of risk assessment and mitigation. The CRO will have  
12 oversight of risks associated with PG&E's operations and the environment  
13 related to public safety. This will include but not be limited to nuclear risk, wildfire  
14 risk, and risks of other natural disasters as well as new strategic risks  
15 confronting utilities (including but not limited to business interruption from cyber-  
16 attack, storms, and other catastrophic events). The CRO will have responsibility  
17 for evaluating the risks to public safety associated with PSPS and the risk of  
18 both implementation or non-implementation of PSPS and other operational  
19 decisions in catastrophic events. The CRO will also:

- 20 • Oversee an ongoing risk assessment and mitigation process that  
21 encompasses both the electrical and natural gas portions of PG&E's  
22 business;
- 23 • Be consulted and participate in strategic discussions related to threats and  
24 risks;
- 25 • Be afforded opportunities to identify, understand, and quantify threats and  
26 risk;
- 27 • Work with risk owners to implement risk management strategies;
- 28 • Identify threats to PG&E's business;
- 29 • Work with the CPUC and other California utilities to create a framework to  
30 assess the organization's level of risk appetite and tolerance;
- 31 • Assist in integrating risk management into the overall business strategy;
- 32 • Have responsibility for addressing the recommendations of the Independent  
33 Advisor (defined below) with respect to risk; and



- Provide quarterly in-person reports to CPUC staff in conjunction with the Independent Advisor (if applicable), on all findings and remedial actions.

**Chief Safety Officer (Interim) – Jan Nimick.** Jon Franke, former CSO and VP of Safety and Health, Enterprise Corrective Action Program and DOT (SHED) for both PG&E Corporation and the Utility, departed PG&E on June 3, 2019, and Jan Nimick has been leading the SHED organization on an interim basis.<sup>2</sup> Mr. Nimick was most recently Senior Director at Diablo Canyon Power Plant, which enables him to bring the rigor and best practices from the nuclear industry's safety culture to the SHED organization; he also served a 4-month rotational role in the Utility's wildfire inspection program prior to assuming his role in SHED. The Boards' SNO Committees, as part of their role in reviewing and overseeing the corporate safety function, are engaged in reviewing the retention of PG&E's CSO, consistent with the recommendations of NorthStar regarding qualifications and training for such a position.<sup>3</sup>

The CSO currently partners with the lines of business to develop and monitor the enterprise-wide safety program. The CSO currently reports directly to me, and also provides regular reports to the SNO Committees concerning establishment of and performance on safety, including reports on any significant delays or lack of cooperation by managers in obtaining information necessary for the preparation of the reports. Post-emergence, the CSO will have a direct reporting relationship with the CEO of PG&E Corporation.

**Chief Ethics and Compliance Officer – Julie Kane.** Julie Kane is SVP, Chief Ethics and Compliance Officer and Deputy General Counsel for both PG&E Corporation and the Utility. As Chief Ethics and Compliance Officer, in partnership with the lines of business, Ms. Kane has day-to-day responsibility for overseeing and monitoring the enterprise-wide compliance and ethics program (discussed below). She also leads ethics and compliance training and culture-building efforts, and oversees matters relating to the Utility's criminal convictions arising from the San Bruno gas pipeline explosion. The Chief Ethics and Compliance Officer reports directly to the CEO and President of PG&E

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<sup>2</sup> Mr. Nimick is a Senior Director at the Utility.

<sup>3</sup> See NorthStar Consulting Group, *Final Report: Assessment of Pacific Gas and Electric Corporation and Pacific Gas and Electric Company's Safety Culture*, at IV-24 (May 8, 2017). PG&E expects to fill this position on a permanent basis imminently.

1 Corporation, and functionally reports to the Compliance and Public Policy  
2 Committee of the PG&E Corporation Board on compliance and ethics matters  
3 related to PG&E. Ms. Kane also provides regular reports to the SNO  
4 Committees of the Boards of Directors regarding compliance and ethics metrics  
5 related to PG&E's operations and facilities. Ms. Kane is the key management  
6 liaison to the Compliance and Public Policy Committee and meets regularly with  
7 that committee in executive session without other management present.  
8 Ms. Kane also provides annual reports to the Boards regarding the matters  
9 under her purview.

10 Ms. Kane has deep experience in ethics, compliance, and corporate  
11 citizenship programs across several industries. Before joining PG&E in 2015,  
12 Ms. Kane served as VP, General Counsel and Compliance Officer of Avon North  
13 America. She had previously held a number of senior roles at Novartis  
14 Corporation, including VP, Ethics and Compliance and Corporate Citizenship;  
15 VP, Health, Safety and Environment and Chief Environmental Counsel; and VP,  
16 Ethics and Compliance. Ms. Kane earned her undergraduate degree in Political  
17 Science from Williams College and a Law degree from the University of  
18 San Francisco School of Law, and she is a member of the California State Bar.

19 **Chief Customer Officer – Laurie Giammona.** Laurie Giammona is the  
20 SVP and Chief Customer Officer for the Utility. As Chief Customer Officer,  
21 Ms. Giammona leads all aspects of the Utility's Customer Care organization,  
22 which oversees service to 16 million people throughout northern and central  
23 California and is dedicated to improving customers' experience. She oversees  
24 billing, metering, revenue, call centers, local offices, account services, low-  
25 income offerings, customer programs (including energy efficiency, solar, electric  
26 vehicle and demand response portfolios), and corporate security.

27 Ms. Giammona joined PG&E in 2012 as VP, Customer Service of the Utility,  
28 a role in which she oversaw initiatives to improve customer experience and  
29 satisfaction. Before joining PG&E, she developed extensive experience in  
30 customer care. She served as Regional VP of Customer Care at Comcast,  
31 where she led customer sales, service, and experience for 5 million households  
32 in California, and also held executive positions at United Airlines, leading teams  
33 in customer service, business and airport operations, sales, and training and  
34 development.

1           **Senior Vice President, Electric Operations – Michael Lewis.** Michael  
2 Lewis was named the Utility's SVP, Electric Operations in January 2019  
3 (replacing Patrick Hogan, who retired that month). Mr. Lewis oversees all  
4 electric transmission and distribution grid operations in the Utility's  
5 70,000-square-mile service area, as well as the Utility's wildfire prevention and  
6 response efforts, longer-term grid resiliency initiatives, system-wide vegetation  
7 management, and emergency preparedness and response efforts.

8           Mr. Lewis has worked in the energy industry for more than three decades,  
9 during which time he has gained experience leading large-scale safety and  
10 operations improvement programs. Before he assumed his current role,  
11 Mr. Lewis served as the Utility's VP, Electric Distribution Operations. Mr. Lewis  
12 previously served as the SVP of Energy Delivery for Progress Energy in Florida.  
13 After Progress Energy merged with Duke Energy, Mr. Lewis occupied  
14 increasingly senior roles at Duke Energy, including Chief Transmission Officer  
15 and culminating in his role as SVP and Chief Distribution Officer. Mr. Lewis  
16 holds a Bachelor's degree in Electrical Engineering from the University of Florida  
17 and a Master's of Business Administration from Nova Southeastern University.  
18 He was recently named to the Governor's Earthquake Advisory Commission and  
19 is a member of the Association of Edison Illuminating Companies.

20           **Interim Lead, Gas Operations– Jane Yura.** Following the October 2019  
21 departure of Melvin Christopher (former VP, Gas Operations), the Utility has  
22 rehired Jane Yura to lead its Gas Operations organization on a temporary basis.  
23 She reports directly to me. Ms. Yura retired from a 35-year career with PG&E in  
24 2014. She got her start here as an Engineer in Gas Design and Distribution,  
25 and was promoted to Division Manager in the Gas Distribution and Customer  
26 Services organizations.

27           From there, Ms. Yura moved into Finance, a path that led to her being  
28 named VP of Regulation and Rates. She returned to Gas Operations at the  
29 request of former PG&E President Nick Stavropoulos, becoming VP, Gas  
30 Operations Standards and Policies, and ultimately VP, Gas Operations Asset  
31 and Risk Management. Ms. Yura will remain in her new position as Interim  
32 Lead, Gas Operations until PG&E emerges from Chapter 11, or until a  
33 permanent replacement is named.

1 **D. Reorienting the Utility Around Customer and Workforce Welfare and**  
2 **Safety, and Overall Customer Experience (A. Vesey)**

3 The new leadership of the Utility, including myself, believes that the Utility's  
4 future success requires focusing on protecting and advancing customer and  
5 workforce welfare—including through improvements to safety culture and  
6 performance—and improving overall customer experience. Excellence in public  
7 safety performance is critical to customer welfare and satisfaction, and to  
8 restoring customer trust and goodwill. Excellence in occupational safety is  
9 critical to workforce welfare. The Utility's ability to drive positive outcomes for  
10 our customers also depends on properly managing change and transition in  
11 safety and other areas. Improving customer satisfaction also necessarily entails  
12 increasing the reliability of service, including reducing the number of customers  
13 impacted by PSPS events, and reducing the frequency and duration of PSPS  
14 events, which—while currently necessary to prevent catastrophic wildfires and  
15 preserve life and property—are highly disruptive for customers. The discussion  
16 below first addresses the Utility's efforts to improve customer and workforce  
17 welfare through improvements to safety culture and performance, and then turns  
18 to its efforts to increase customer satisfaction and reliability of service.

19 **1. Improving Safety Culture and Performance (A. Vesey)**

20 PG&E has taken and is taking numerous proactive steps to improve its  
21 safety culture and performance, including building on and enhancing  
22 existing governance structures, increasing transparency, and engaging  
23 stakeholders to improve long-term trust. PG&E also is embracing entirely  
24 new governance actions, including independent oversight such as institution  
25 of an Independent Safety Advisor and an ISOC, which will report to Mr.  
26 Johnson and also provide reports to the Boards' SNO Committees. Many of  
27 these initiatives and steps directly impact Utility safety culture and  
28 performance. I describe some of these measures below.

29 **a. Improving Data, Metrics, and Risk Management (A. Vesey)**

30 Another of the Utility's actions to improve existing governance of  
31 safety culture and performance is to improve data, metrics, and risk  
32 management through PG&E's EORM program and through the Safety  
33 Model Assessment Proceeding (SMAP) and the Risk Assessment and

1 Mitigation Phase (RAMP) proceeding. PG&E's EORM program is  
2 critical to effective, efficient management and reduction of the risks  
3 inherent in delivering gas and electric service to customers. Aligned  
4 with key input from the Commission and stakeholders, PG&E has made  
5 important changes to the EORM program, and PG&E plans to continue  
6 to make additional refinements, including implementing any future  
7 guidance from the Commission and stakeholders through the SMAP and  
8 RAMP processes. Through application of the EORM framework and  
9 continual improvements thereto, PG&E is set up to comprehensively  
10 identify risks that could lead to significant safety consequences,  
11 implement the actions that have the best potential and are most cost  
12 effective to reduce risk, and effectively and transparently monitor and  
13 report results.

14 **1) Detailed Summary: Improving Data, Metrics, and Risk**  
15 **Management (S. Cairns<sup>4</sup>)**

16 At the most basic level, PG&E's public utility functions of  
17 delivering gas and electric service to customers have considerable  
18 and inherent risks, some of which simply cannot be eliminated;  
19 PG&E's EORM program is about reducing those inherent business  
20 risks. Specifically, the EORM program is designed to systematically  
21 identify, analyze, evaluate, and monitor all the risks that could  
22 potentially prevent PG&E from achieving its objective of delivering  
23 safe, reliable, affordable, and clean energy to customers. The  
24 EORM program then also identifies, evaluates, and monitors  
25 mitigations for addressing those risks. Particularly with its shift to a  
26 more quantitative approach to risk management and its goal of data-  
27 driven decision making that results in measurable risk reduction  
28 across the portfolio of enterprise and operational risks, the EORM  
29 program has proven essential to improving PG&E's risk  
30 identification and mitigation efforts.

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4 Stephen Cairns is VP, Internal Audit and CRO for both the Utility and PG&E Corporation. His background and responsibilities are further described above in the testimony of Andrew Vesey.

1 PG&E's EORM program was established in 2011 in response to  
2 the Report of the Independent Review Panel issued by the  
3 Commission recommending a more granular assessment of  
4 operational risks following the San Bruno pipeline explosion.<sup>5</sup> It  
5 replaced PG&E's earlier Enterprise Risk Management program and,  
6 in the time since, it has seen significant developments and  
7 improvements. Most importantly, this has included alignment with  
8 the enterprise risk management regulatory processes established by  
9 the Commission in the SMAP and RAMP proceedings<sup>6</sup> as well as  
10 best practices contained in international risk management  
11 standards. PG&E's EORM program is based on the foundational  
12 principles of ISO 31000, a family of standards relating to enterprise  
13 risk management codified by the International Organization for  
14 Standardization. These principles include four basic and iterative  
15 steps: identify, evaluate, respond, and monitor. At its inception, the  
16 EORM program largely relied on a qualitative approach to assessing  
17 and evaluating risks. Over time, however, particularly with the  
18 significant developments as part of SMAP and RAMP, PG&E's  
19 EORM program has become increasingly data-driven and  
20 quantitative at all stages of this iterative process.

21 Using the EORM process, PG&E's risks are: (i) identified  
22 across the entire enterprise, including individual lines of business;  
23 (ii) evaluated using a multi-attribute value function (MAVF);  
24 (iii) addressed through an analysis of mitigation alternatives to  
25 determine the risk reduction value of particular approaches; and  
26 (iv) once a risk mitigation approach is selected, monitored by risk  
27 owners, by senior management, and in some cases directly by the

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<sup>5</sup> See Report of the Independent Review Panel San Bruno Explosion (June 8, 2011, revised June 24, 2011), *available at* [https://www.cpuc.ca.gov/uploadedFiles/CPUC\\_Public\\_Website/Content/Safety/Natural\\_Gas\\_Pipeline/News/Final%20Report.pdf](https://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/Safety/Natural_Gas_Pipeline/News/Final%20Report.pdf).

<sup>6</sup> See D.14-12-025.

1 Boards of Directors<sup>7</sup> to determine if the risk mitigation activities are  
2 achieving measurable risk reduction. The Utility's Safety  
3 Department likewise is responsible for applying the same process to  
4 evaluate risk events where an employee, contractor, or member of  
5 the public is seriously injured or killed due to: (a) an interaction with  
6 PG&E facilities either by working on or around them; (b) an  
7 interaction with intact, properly functioning assets; or (c) a motor  
8 vehicle incident.

9 PG&E's EORM program reflects important recent changes and  
10 refinements, informed and driven by the Commission's SMAP  
11 decision regarding risk measurement<sup>8</sup> as well as feedback from the  
12 Commission and intervenors in connection with the Utility's  
13 RAMP filing.<sup>9</sup>

14 First, PG&E has transitioned to an enterprise-wide event-based  
15 risk register,<sup>10</sup> rather than viewing risk from the perspective of  
16 individual departments or lines of business. As part of this  
17 transition, departments from across the enterprise collectively  
18 identified the key risk events for PG&E and consolidated a list of  
19 over 200 individual risks and risk drivers into what is currently a list  
20 of 35 event-based risks, 15 of which are characterized as  
21 "enterprise risks" (risks that could significantly disrupt PG&E's  
22 mission of providing safe, reliable, and affordable utility service to  
23 customers), and 8 "enterprise risk topics" (cross-cutting risk drivers  
24 or controls associated with one or more enterprise risks). Some of  
25 the 200 individual risks previously identified were recharacterized as  
26 drivers to, or controls for, risk events. For example, "emergency

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<sup>7</sup> As discussed further in Chapter 4, the Boards and Board Committees have active oversight responsibilities for all of PG&E's enterprise risk events and enterprise risk topics. Yet for some risks, Board oversight is even more direct and involved.

<sup>8</sup> See D.18-12-014.

<sup>9</sup> See D.19-10-007.

<sup>10</sup> See D.18-12-014 at 18 (defining "risk event" as: "An occurrence or change of a particular set of circumstances that may have potentially adverse consequences and may require action to address. In particular, the occurrence of a Risk Event changes the levels of some or all of the Attributes of a risky situation.").



1 preparedness and response risk,” i.e., the risk resulting from failing  
2 to appropriately prepare for and respond to emergent situations, is  
3 now primarily viewed as a control for reducing the impact of specific  
4 risk events, such as a “wildfire” or “loss of containment –  
5 transmission pipeline rupture.” Likewise, the risk of a “cyber attack”  
6 is now viewed as a driver for several risk events, including a  
7 “system-wide electrical disturbance (blackout)” and a “data loss  
8 event.”

9 Second, consistent with the outcomes of SMAP and the Utility’s  
10 first RAMP,<sup>11</sup> PG&E is implementing a new way to measure and  
11 communicate risk using a MAVF for each risk event together with a  
12 bowtie analysis. A MAVF is “[a] tool for combining all potential  
13 consequences of the occurrence of a risk event, and [it] creates a  
14 single measurement of value.”<sup>12</sup> A bowtie analysis is “[a] tool that  
15 consists of the Risk Event in the center, a listing of drivers on the left  
16 side that potentially lead to the Risk Event occurring, and a listing of  
17 Consequences on the right side that show the potential outcomes if  
18 the Risk Event occurs.”<sup>13</sup> In Decision (D.) 18-12-014, the  
19 Commission found using a MAVF to be “a big improvement” that  
20 “dramatically advances [a] utility’s ability to assess and prioritize  
21 risks,”<sup>14</sup> and the bowtie analysis helps facilitate the calculation of a  
22 risk score, which reflects the probability of a risk event occurrence  
23 given the historical frequency of key risk drivers and the potential  
24 consequences of the risk event. Using a MAVF, risk consequences

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<sup>11</sup> See D.18-12-014; D.19-10-007.

<sup>12</sup> D.18-12-014 at 17.

<sup>13</sup> D.18-12-014 at 16. As a tool for quantitative risk assessment, the bowtie analysis enables a more targeted approach to mitigations as high frequency risk drivers can be addressed directly and in areas where the most significant consequences could occur. One recent example is the Utility’s approach to mitigating wildfire risk. The bowtie analysis showed that the two largest drivers of risk are equipment failure and vegetation, and that the most catastrophic fires occur when there are populations living within or near High Fire Threat Districts. This has guided the Utility’s approach to hardening its system and increasing vegetation management beyond traditionally allowed clearances.

<sup>14</sup> D.18-12-014 at 44.



1 are measured in terms of potential impacts to safety (public,  
2 employee, or contractor), gas or electric reliability, and the  
3 company's financials. The Commission determined that potential  
4 safety consequences of a risk event should be assigned "a  
5 minimum . . . weight of 40% to ensure that the safety attribute is  
6 weighted most heavily,"<sup>15</sup> and PG&E has decided to assign more  
7 than a 40 percent weighting for safety consequences in its risk  
8 scoring methodology.<sup>16</sup> The risk score then serves as a baseline  
9 from which to assess the need for further risk reducing actions and  
10 to assess the effectiveness of those actions over time.

11 Third, a significant focus area for quantitative risk assessment  
12 as part of PG&E's EORM program is improving data collection and  
13 use, particularly for the most impactful areas of risk. For instance,  
14 PG&E's bowtie analysis now relies not just on failure data for  
15 modeling the frequency of risk events but also on root cause  
16 analysis and data feedback loops, making the analysis even more  
17 robust. In addition, PG&E has refined the metrics used to measure  
18 the effectiveness of risk reduction mitigations. And complementary  
19 work is underway to ensure that the appropriate governance forums  
20 across the enterprise receive straightforward information on risk  
21 reduction performance with the appropriate transparency to ensure  
22 that the results are well understood and appropriate actions are  
23 taken. The performance of these metrics also will be included in the  
24 Utility's Risk Mitigation Accountability Reports, as part of the SMAP  
25 and RAMP process.<sup>17</sup> Also guided by the bowtie analysis, PG&E is  
26 conducting sensitivity analyses to further identify particularly  
27 valuable information for collection and measurement. Metrics,  
28 derived from components of the bowtie analysis, that show a cause-  
29 and-effect relationship between mitigation actions and risk reduction  
30 are currently being developed and championed through the SMAP

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<sup>15</sup> D.18-12-014 at 45.

<sup>16</sup> Reliability consequences are weighted at 25 percent, and financial consequences at 25 percent.

<sup>17</sup> See D.14-12-025; D.19-04-020.

1 Working Group on metrics development. These metrics will be  
2 helpful in demonstrating risk reduction and will help management  
3 and the Board to better gauge the effectiveness of the company's  
4 risk mitigation actions.

5 Fourth, after transitioning to an enterprise-wide event-based risk  
6 register, PG&E also is better defining how cross-cutting issues play  
7 a role in the overall risk management framework of the EORM  
8 program. PG&E has found that an event-based view of risk means  
9 that for certain risk events, the risk drivers, controls, and/or  
10 mitigations may be managed by someone other than the risk owner.  
11 Therefore, a critical component for the success of the EORM  
12 program is for risk owners to coordinate all the risk management  
13 activities across the enterprise to effectively control, mitigate, and  
14 track performance.

15 PG&E seeks to continually improve its EORM program in  
16 addition to these recent advances. PG&E's current focus for further  
17 refinements to the EORM program includes progress in the following  
18 areas:

- 19 • Developing quantitative risk models using a bowtie analysis for  
20 each risk on PG&E's risk register;
- 21 • Identifying data gaps, completing sensitivity analyses to identify  
22 the greatest opportunities for improved data collection, and  
23 presenting data improvement plans for those areas of most  
24 value;
- 25 • Developing risk mitigation plans selected based on an  
26 alternatives analysis that incorporates risk-spend efficiency and  
27 executability, including a differentiation between segments of  
28 risk exposure to identify highest value risk reduction  
29 opportunities;
- 30 • Identifying key effectiveness metrics derived from the bowtie  
31 analysis, and beginning tracking and reporting;
- 32 • Establishing rigorous standards for data quality and model  
33 integrity; and

- Conducting risk benchmarking with non-utilities to identify transferable best practices.

**b. Improving Wildfire Safety (A. Vesey)**

The Utility is committed to continuing to strengthen its programs and infrastructure to significantly improve public safety and mitigate wildfire risk. After the 2017 and 2018 wildfires, the Utility aggressively expanded vegetation management around its assets. In addition to the Utility's regular ongoing vegetation work, in 2018, the Utility began implementing its risk-based Enhanced Vegetation Management Program to further mitigate fire risk associated with the Utility's electric distribution lines in High Fire Threat District areas. The Utility also has developed and implemented an ambitious Wildfire Safety Inspection Program to further mitigate fire risk associated with electric equipment and infrastructure. The Utility also is working to harden its electric system for the future, including targeted use of undergrounding, insulated conductors, and more durable and flame-resistant power poles.

The Utility's extensive, ongoing wildfire safety efforts are described in detail in Chapter 6: Wildfire Safety. On top of these extraordinary efforts, the Utility is committed to continuing self-evaluation to identify and exploit opportunities for continued improvement to help mitigate California's escalating wildfire threat.

**c. Enterprise Safety Management System (A. Vesey)**

The Utility is committed to protecting the welfare of its customers, its workforce, and the environment. The Utility has been developing its ESMS, which it expects will be a key enabler of continual improvements in safety culture and performance. The Utility initially developed and implemented a safety management system for the design, construction, maintenance, and operation of its natural gas system after the San Bruno tragedy; the enterprise-wide ESMS will extend the system to the remaining elements of the enterprise. This ESMS will comprehensively cover how the Utility manages the business of safety, and will address

1 gaps in the sufficiency of its safety management system as identified by  
2 an independent third-party assessment by NorthStar.

3 At a session on the scope of the ESMS in August 2019, senior  
4 operational leadership arrived at numerous design principles to achieve  
5 the ESMS's mission of proactively safeguarding customers, our  
6 workforce, and the environment by effectively collaborating as one team,  
7 enhancing safety in all aspects and throughout all areas of the  
8 companies, managing change in diverse and dynamic safety  
9 environments, and continuous improvement. The Utility's most recent  
10 quarterly reports to the Safety and Enforcement Division (SED),  
11 submitted on July 30 and October 31, 2019, detail PG&E's progress in  
12 implementing NorthStar's recommendations. I will not repeat those  
13 lengthy discussions here, but rather respectfully refer the Commission to  
14 those reports. The reports cover the Utility's implementation and  
15 refining of the One PG&E Occupational Health and Safety Plan, which  
16 addresses employee and contractor safety efforts. The Utility  
17 acknowledges that it needs to improve its performance in this area and  
18 is committed to doing so through, among other things, the Occupational  
19 Health and Safety Plan, which is designed to improve safety and health  
20 performance and culture by using data analytics to drive targeted  
21 improvements in its systems, processes, and communications.

22 Following my arrival at the Utility in August 2019, I established my  
23 commitment to the ESMS, and my office gathered a group of safety  
24 leaders from across the enterprise to develop the foundational  
25 standards that outline the ESMS requirements. While the business of  
26 safety is never complete, the ESMS has a target implementation date of  
27 late 2021.

28 Related to the ESMS, as part of the recently announced Wildfire  
29 Order Instituting Investigation (OII) settlement, PG&E will document  
30 "near hit" potential fire incidents, such as arcing or sparking, that could  
31 have ignited a wildfire but did not. Data will include all momentary and  
32 sustained outage data as well as information from customer calls  
33 regarding such "near hit" incidents, and will be provided on a monthly  
34 basis to the SED, among others. This will provide additional

1 transparency and inform the continuous learning that will be an  
2 important component of the ESMS.

3 **d. Working Toward Recognized International Standards (A. Vesey)**

4 One of the pillars of the Utility's safety management system is  
5 adopting and implementing internationally recognized asset  
6 management standards, in particular, Publicly Available Specification  
7 (PAS) 55 and ISO 55000. These standards cover end to end lifecycle  
8 aspects of a business' asset management system, and provide a  
9 common framework for the Utility to take a comprehensive view of how it  
10 manages assets in an effective and sustainable manner and to  
11 implement continuous improvement. The Utility believes that a  
12 collaborative, uniform approach to asset management throughout the  
13 enterprise will yield sustained benefits for its customers. To that end,  
14 the Utility's gas and electric lines of business have been working  
15 towards achieving and maintaining PAS 55 and ISO 55000 asset  
16 management standards. The Utility's power generation LOB is likewise  
17 working towards implementing principles of the ISO 55000 standard as it  
18 addresses the safety risks posed by high- and significant- hazard  
19 potential (FERC Hazard Classification System) dams by utilizing the  
20 Dam Safety Maturity Matrices developed by the Centre for Energy  
21 Advancement through Technological Innovation (CEATI). CEATI's  
22 safety maturity matrices are built on similar principles to the ISO 55000  
23 standard, but are specifically tailored to asset management and safety  
24 issues posed by dams. Power Generation is already using the CEATI  
25 Maturity Matrix and is committed to utilizing CEATI to coordinate a peer  
26 evaluation of Power Generations maturity level in 2020. As the power  
27 generation LOB makes continued progress in implementing the CEATI  
28 framework, it is making progress towards implementing the principles of  
29 the ISO 55000 standard in tandem with the objective of ISO certification  
30 for Power Generation assets in the following years. The Utility's  
31 embracing the ISO, PAS, and CEATI standards reflects its dedication to  
32 a philosophy of continual improvement in the areas of safety, reliability,  
33 and cost performance across the enterprise as a whole.

1                   **1) Detailed Summary: ISO 55000 (A. Gupta<sup>18</sup>)**

2                   ISO 55000 was originally issued in 2014 after 10 years of  
3                   development, and is largely based on the PAS 55 standard from the  
4                   United Kingdom. The ISO standard, as an internationally  
5                   recognized benchmark for prudent asset management, consists of  
6                   three components: ISO 55000 (provides an overview of the subject  
7                   of asset management, and governing definitions and terminology);  
8                   ISO 55001 (issued in 2014, specifies the requirements for an  
9                   integrated, effective management system for asset management);  
10                  and ISO 55002 (issued in 2018, provides guidance for the  
11                  application of ISO 55001 in implementing such an asset  
12                  management system). The standard was most recently updated in  
13                  2019 with the publication of a Technical Specification  
14                  (ISO/TS 55010). The standard covers a range of topics, including  
15                  asset management strategy, objectives, and plans; asset  
16                  management organizational structure; training, awareness, and  
17                  competence; risk management; management of change;  
18                  performance and condition monitoring; evaluation of compliance;  
19                  and a host of other topics relevant to safe asset management.

20                  The Utility is committed to the safe, reliable, affordable, and  
21                  sustainable management of its assets, including through the  
22                  implementation of recognized standards to achieve a consistent and  
23                  integrated application of asset management practices by employees  
24                  and contractors. In 2014, the Utility was one of the first utilities in  
25                  the world to attain for its gas operations both the ISO 55001 and  
26                  PAS 55-1 certifications. The Utility's gas operations LOB achieved  
27                  recertification under both of the standards in 2017. The  
28                  certifications and recertifications under both standards were

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**18** Amit Gupta is the Utility's Manager of the Electric Asset Excellence program, which is responsible for adopting and achieving PAS 55 and ISO 55000 asset management certification for Electric Operations. He initially joined PG&E in 2013 to manage the Gas Safety Excellence program responsible for PAS 55 and ISO 55000 certification in the Utility's Gas Operations. Mr. Gupta holds a Master's in International Business from Leeds Metropolitan University, Leeds UK and a Master's of Science in Accounting & Taxation from University of Hartford, Connecticut.

1 awarded by the independent, internationally recognized auditor,  
2 Lloyd's Register. For instance, in May 2017, Lloyd's Register  
3 travelled throughout the Utility's natural gas service area reviewing  
4 safety practices, information and risk management policies,  
5 employee qualifications, emergency response protocols, and critical  
6 areas of asset management relating to the Utility's gas operations.  
7 The certification process also involved a series of rigorous,  
8 independent audits and interviews of more than 100 PG&E  
9 members of management, field employees, and contractors. In  
10 addition to the certification and the recertification audits, the auditors  
11 also conducted regular six-month surveillance visits over the  
12 preceding three years to ensure the Utility was following the  
13 requirements of the certifications for its gas operations. The Utility is  
14 in the process of seeking to attain PAS 55-1 and ISO 55001  
15 certification for its electric operations, and has succeeded in  
16 reducing the gaps as Lloyd's Register continues to conduct their  
17 assessment of the Utility's Electric Operations.

18 **e. Enhancing PG&E's Management of Change, Including Horizon**  
19 **Scanning and Scenario Planning (A. Vesey)**

20 PG&E is studying ways to ensure that it adequately plans for the  
21 future in an ever-changing world, including as to safety and risk. The  
22 EORM program is critical to this, as it ties into PG&E's budgeting and  
23 thus helps to ensure that risk assessments and mitigations are  
24 incorporated into day-to-day operations. The ESMS also is important in  
25 this area, in that management of change is part of the ESMS; when fully  
26 operational, it will provide methods for managing the safety risks  
27 associated with changes to business processes and organizational  
28 assets, to technical information and assets, and to the diverse and  
29 dynamic risk environments in which PG&E operates. Additionally,  
30 PG&E has incorporated the concept of "Horizon Scanning" into its risk  
31 management governance forums, and is exploring other mechanisms to  
32 introduce horizon scanning into its planning efforts. In addition, PG&E  
33 will be using scenario planning as a strategic planning method so that



1 the company can be responsive and effective in dealing with various  
2 scenarios in the future which may affect the business.

3 Horizon scanning aims to identify, in a systematic manner, potential  
4 future developments, whether these are emerging risks not accounted  
5 for by current planning or potential “black swan” events that challenge  
6 past assumptions. Horizon scanning is intended to collect and  
7 synthesize observations that may be pertinent to future developments  
8 and allow for the examination of the implications and better  
9 preparedness or potential mitigation efforts. Employment of horizon  
10 scanning in discussions of risk and compliance matters is intended to  
11 encourage employees to raise concerns and bring potential issues to  
12 the table for discussion. Issues could include experiences others in the  
13 industry have encountered where similar conditions could be present at  
14 PG&E (e.g., the recent NiSource gas explosion), and issues that have  
15 come up at conferences or through networking and benchmarking with  
16 peers inside and outside the industry. In addition, the EORM team  
17 benchmarks top risks across the industry and reaches out to others in  
18 similar functions at companies much different from PG&E (e.g., airlines,  
19 financial services companies, etc.).

20 **f. Embracing Existing Independent Oversight of Safety and Risk (A.**  
21 **Vesey)**

22 As discussed, PG&E has embraced the views of outside experts  
23 regarding improvements to its safety culture and performance.

24 **1) The Independent Safety Advisor and the Independent Safety**  
25 **Oversight Committee (A. Vesey)**

26 PG&E has created the role of an Independent Safety Advisor,  
27 who reports directly to PG&E Corporation’s CEO and President, and  
28 who will serve as the Chair of the recently formed ISOC. In  
29 April 2019, PG&E announced that it would engage Christopher Hart  
30 to serve as this Independent Safety Advisor, providing advice to  
31 PG&E Corporation and its subsidiaries, including the Utility.  
32 Mr. Hart was officially hired in August 2019, and the ISOC held its  
33 first meeting the week of December 9-16, 2019. Mr. Hart brings to



1 this role extensive administrative experience overseeing complex,  
2 hazardous industries to ensure they operate safely. Mr. Hart is the  
3 immediate past Chair of the NTSB, the federal agency that  
4 investigates accidents in all modes of transportation (including the  
5 gas pipeline explosion in San Bruno in 2010), determines what  
6 caused them, and makes recommendations to prevent recurrences.  
7 Mr. Hart first became a member of the NTSB in 1990 and served  
8 until 1993. From 1993 until 1995, he was Deputy Administrator of  
9 the National Highway Traffic Safety Administration, then he went on  
10 to serve as Federal Aviation Administration (FAA) Assistant  
11 Administrator for System Safety and FAA Deputy Director for Air  
12 Traffic Safety Oversight before returning to the NTSB in 2009.  
13 Mr. Hart holds a law degree from Harvard University and Master's  
14 and Bachelor's degrees in Aerospace Engineering from Princeton  
15 University. In 2018, following Mr. Hart's resignation from the NTSB,  
16 he was engaged in connection with the natural gas distribution line  
17 explosions in Boston to advise on a statewide assessment of the  
18 physical integrity of the gas distribution system, as well as the  
19 operational management policies and practices of the distribution  
20 companies.

21 The ISOC is comprised of members with relevant and diverse  
22 safety and operational expertise, who are compensated for their  
23 time. In addition to Mr. Hart, all of the other committee members are  
24 independent and external to PG&E, although certain Utility  
25 employees will assist individual committee members in performing  
26 their duties.

27 The ISOC is modeled on independent safety oversight  
28 committees that have been established with respect to nuclear  
29 power and dam operations. Among other things, it will provide  
30 independent oversight and review of the Utility's operations,  
31 including safety and regulatory compliance, safety leadership, and  
32 operational performance. For instance, the ISOC will enable the  
33 Utility to better: (i) verify processes and safeguards through  
34 business unit, functional, and corporate assurance programs and

audits; (ii) analyze safeguard performance data identified through assurance activities; and (iii) apply learning from assurance analyses to improve risk assessment quality and support risk-based decision making.

While the ISOC's initial focus will be on wildfire safety, it will scale throughout 2020 such that every area of the business is covered with an independent safety assurance function.

Beginning in December 2019, ISOC members conducted field visits, interviews, and observations of meetings as necessary to evaluate areas of responsibility, as well as reviews of documentation relating to safety performance. The ISOC's initial site visit was during the week of December 9-16, 2019, during which the ISOC assessed processes and programs associated with wildfire safety risks. ISOC members who took part in this visit included, in addition to Mr. Hart, Mr. Frank Gallaher (former COO of Entergy with over 40 years of utility experience), Mr. Gus Ponce (senior director at Exelon with more than 40 years of experience in electric transmission and distribution operations and contract management), Ms. Lynn Walter (veteran of multiple safety review boards across the utility industry), and Mr. Randy Lyle (former Battalion Chief with the California Department of Forestry and Fire Protection (CAL FIRE) and wildfire mitigation program manager with San Diego Gas & Electric Company). PG&E looks forward to incorporating ISOC's feedback from this and future reviews, and is committed to a culture of continuous safety improvement.

The ISOC will meet regularly, assess safety issues, and prepare reports highlighting performance for the respective periods, including an annual performance evaluation for Utility management. The ISOC's report findings and the responses from the relevant lines of business will be disseminated to senior Utility leaders and reviewed with the Boards of Directors or relevant Board committees.

## **2) NorthStar Consulting Group (A. Vesey)**

In D.18-11-050, the Commission directed the Utility to implement the recommendations of the Commission's SED, as set

1           forth in a report prepared by NorthStar, and to serve quarterly  
2           reports on the status of its implementation. The Utility has  
3           embraced every single recommendation in the NorthStar report and  
4           has diligently focused on fully implementing them. The Utility  
5           submits quarterly reports to the SED on the status of its progress on  
6           these recommendations. The Utility actively monitors the execution  
7           and sustainability of each NorthStar recommendation that has a  
8           sustainability component and is ongoing in nature. Also, in  
9           compliance with D.19-06-008, adopted by the Commission on  
10          June 13, 2019, the Utility provides details of the safety-specific  
11          training given to the Utility's and Corporation's Boards of Directors.

12                 NorthStar's review of the Utility's safety culture and performance  
13          is ongoing, as NorthStar continues to monitor the Utility's progress  
14          in implementing its recommendations. NorthStar submitted a First  
15          Update Report on the Utility's progress to the Commission in  
16          March 2019. In the First Update Report, NorthStar highlighted as an  
17          ongoing area of concern its recommendations involving increasing  
18          the time spent by frontline supervisors in the field. The Utility has  
19          been redesigning work procedures and adding support to reduce the  
20          administrative burden on frontline leaders in order to allow them to  
21          spend at least half their time in the field with crews. This  
22          increasingly will allow them to model and support safe behaviors  
23          and practices via regular open dialogue, and lead to improved  
24          safety, quality, and productivity. In the Utility's most recently  
25          submitted quarterly report to the SED, submitted October 31, 2019,  
26          the Utility provided updates on the Supervisor in the Field initiative.  
27          The report also provided updates on, among other things,  
28          enhancements to the Utility's safety observation tool which helps  
29          sharing of best practices across the enterprise, its Safety  
30          Observation Dashboard, and the utilization of Field Safety  
31          Specialists.

### 32           **3) Independent Court-Appointed Monitor (A. Vesey)**

33                 Since April 2017, the Utility has had a court-appointed  
34          independent monitor in connection with its federal sentencing

1 following the 2010 San Bruno pipeline explosion. The independent  
2 monitor—the Honorable Mark R. Filip (ret.) of Kirkland & Ellis LLP—  
3 was appointed for a maximum term of five years and has robust  
4 oversight authority to help ensure that the Utility takes reasonable  
5 and appropriate steps to maintain the safety of its gas and electric  
6 operations and maintains effective ethics, compliance, and safety-  
7 related incentive programs across the enterprise. The Monitor’s  
8 15 areas of focus relate to gas operations (including pipeline  
9 integrity management), and policies and procedures “relating to the  
10 handling of safety citations and timely reporting of self-identified  
11 potential violations.” The Monitor is supported by dozens of other  
12 lawyers from his firm and by over a dozen subject-matter experts in  
13 integrity management, gas transmission, utility operations, risk  
14 evaluation, compliance and ethics, and safety. The Monitor or his  
15 representatives frequently attend Utility management and  
16 operational meetings, and also Utility Board and Board committee  
17 meetings. PG&E has facilitated the Monitor’s extensive oversight  
18 activities. For example, the Monitor and his team: (i) have  
19 conducted field interviews and meetings with hundreds of  
20 employees across PG&E’s service territory, many of whom have  
21 been interviewed more than once; (ii) have conducted over  
22 one thousand meetings and site visits; (iii) have visited operational  
23 facilities including compressor and processing stations, storage  
24 fields, training facilities, crew yards, and customer service centers;  
25 (iv) have conducted panel discussions with dozens of employees,  
26 which have focused primarily on PG&E’s enterprise compliance and  
27 ethics, safety, and culture, as well as the effects of the Company’s  
28 bankruptcy in those areas; (v) have maintained regular  
29 communications with PG&E, including participating in standing  
30 weekly calls to discuss emerging issues and general updates;  
31 (vi) have generated thousands of requests for information; and  
32 (vii) established a Monitor Helpline for PG&E employees to raise  
33 concerns directly to the Monitor team, which PG&E continuously  
34 promotes to its workforce. In May 2019, the federal court expanded

1 the Monitor's role, such that the Utility will report to the Monitor on its  
2 vegetation management status and wildfire mitigation work. PG&E  
3 has received helpful feedback from and maintained a constructive  
4 relationship with the federal monitor, and PG&E expects that this will  
5 continue.

#### 6 **4) Post-Monitor Independent Safety Advisor (A. Vesey)**

7 As part of its embrace of independent safety oversight, PG&E is  
8 willing to work with the CPUC to establish an ongoing Independent  
9 Safety Advisor position ("Independent Advisor") effective upon the  
10 termination of PG&E's criminal probation or of the related Federal  
11 Monitor. When the Federal Monitor position is nearing an end,  
12 PG&E will evaluate its experience with the ISOC (described above),  
13 and decide whether the Independent Advisor position should be an  
14 evolution from the ISOC or whether the Independent Advisor should  
15 be structured as a more external role akin to the Monitor model.

16 The Independent Advisor would be an expert who would review  
17 PG&E's compliance and progress with respect to natural gas  
18 operations safety and wildfire and other disaster mitigation activities,  
19 including: vegetation management programs; reliability and  
20 hardening programs (both electrical infrastructure and microgrid  
21 implementation); risk analysis; implementation of mitigation  
22 measures (including the use of and effectiveness of the Emergency  
23 Operations Center and PSPS); public and workforce safety; and  
24 programs to assure compliance with the safety and operational  
25 metrics (to be established as discussed below).

26 Among other things, the Independent Advisor would provide  
27 reports to the SNO Committee, the CRO, the CSO and the CPUC,  
28 as set forth below. In addition, the Independent Advisor would work  
29 with the CRO, the CSO, and PG&E's management team to develop  
30 recommendations to address compliance issues and to enhance  
31 PG&E's safety performance. The Independent Advisor would have  
32 the authority to observe relevant meetings of the boards of directors  
33 (including committee meetings) and management meetings  
34 (excluding privileged discussions) to evaluate performance and

1 safety issues, conduct field visits, interviews and inspections, review  
2 documentation related to safety performance, and undertake any  
3 other tasks reasonably required in furtherance of the Independent  
4 Advisor's duties.

5 The Independent Advisor's duties would include:

- 6 • Monitoring PG&E's progress and performance related to the  
7 safety of the natural gas storage, distribution and transmission  
8 system;
- 9 • Monitoring PG&E's progress with respect to vegetation  
10 management programs, reliability and hardening programs  
11 (both electrical infrastructure and microgrid implementation), risk  
12 analysis, and prioritization of implementation of mitigation  
13 measures (including the use of and effectiveness of the  
14 Emergency Operations Center and PSPS);
- 15 • Monitoring PG&E's progress toward and compliance with its  
16 Safety and Operational Metrics;
- 17 • Providing periodic (and no less than quarterly) reporting to the  
18 SNO Committees, the CRO, the CSO, and the CPUC on its  
19 findings regarding PG&E's operations and compliance with its  
20 Safety and Operational Metrics;
- 21 • Providing periodic (and no less than quarterly) reporting to the  
22 SNO Committees, the CRO, the CSO, and the CPUC on the  
23 status of any remedial actions to address any deficiencies  
24 previously identified by the Independent Advisor or by PG&E,  
25 the CPUC, or any other court or regulatory body of competent  
26 jurisdiction; and
- 27 • Providing quarterly in person reports to CPUC staff, in  
28 conjunction with the CRO and/or CSO as appropriate, on all  
29 findings and remedial actions.

30 The Independent Advisor would have expertise and experience  
31 in natural gas storage distribution and transmission safety, wildfire  
32 safety and mitigation, utility vegetation management and electric  
33 system infrastructure, electric system emergency procedure and  
34 operations, and public and workforce safety (except to the extent

1 that the CPUC approves an appointee to this role who may not  
2 satisfy all of these criteria). The Independent Advisor would have  
3 the authority to retain third-party experts to advise and provide  
4 analysis to assist the Independent Advisor in their duties. The  
5 Independent Advisor position would exist through 2025, and any  
6 Independent Advisor would have to be acceptable to the CPUC  
7 (through the CPUC Executive Director) and the SNO Committee (or  
8 other Board-level committee with pertinent oversight).

9 **5) Independent Wildfire Safety Auditor (A. Vesey)**

10 As part of the recently announced settlement of the Wildfire OII,  
11 PG&E has agreed to retain one or more independent consultants to  
12 perform audits and reviews of, among other things, specified  
13 matters related to PG&E's enhanced vegetation management efforts  
14 and overhead distribution and transmission preventive maintenance.  
15 The audits will be conducted annually for a three-year period,  
16 subject to various provisos as set out in the publicly available  
17 settlement documentation. PG&E Corporation shareholders shall  
18 pay the costs for the safety evaluator up to a total of \$4 million over  
19 the three-year period.

20 **6) Safety and Operational Metrics (A. Vesey)**

21 In addition, PG&E will work with the CPUC to design and  
22 implement a program for regular CPUC oversight of PG&E's safety  
23 and operational performance. PG&E will propose to the CPUC,  
24 prior to its emergence from Chapter 11, a set of proposed safety  
25 and operational metrics for the CPUC's review and approval, and a  
26 system for regular evaluation of those metrics for early identification  
27 of shortcomings and corrective actions.

28 **g. Enhancing PG&E's Compliance Program (A. Vesey)**

29 In 2015, PG&E created a new position of Chief Ethics and  
30 Compliance Officer to build a best-in-class ethics and compliance  
31 program and oversee its implementation. We strive to ensure that every  
32 business decision is guided by our commitment to operate with high  
33 ethical standards, and is—at a minimum—in compliance with all



1 applicable laws and regulations and internal policies and procedures.  
2 Julie Kane serves as each company's Chief Ethics and Compliance  
3 Officer, and she is submitting testimony herewith that provides greater  
4 detail about PG&E's ongoing and active efforts in this critical area.

5 **h. Enhancing PG&E's Enterprise Records and Information**  
6 **Management Program (*M. Hertzler*<sup>19</sup>)**

7 Another action to improve existing governance of safety culture is  
8 the enhancement of PG&E's ERIM Program. The risk of not having an  
9 effective records and information management program may result in  
10 the failure to properly construct, operate, and maintain a safe system—  
11 potentially leading to property damage or even loss of life. A lack of  
12 records availability may have additional negative consequences after  
13 the occurrence of a catastrophic event, such as the inability to locate  
14 records necessary to support an investigation or to understand the  
15 incident's root cause. Thus, an event involving unavailable or  
16 inaccurate records or information is likely to have an impact on asset  
17 and operational safety risks. By contrast, a mature records  
18 management program mitigates against the risk that records are not  
19 maintained in a manner that allows the timely, efficient, and accurate  
20 retrieval of information to support informed decision making.

21 PG&E established the ERIM Department in May 2014 to continue  
22 and expand the work of PG&E's former Information Management  
23 Compliance organization. The ERIM Department was established as a  
24 centralized function providing enterprise level strategy and support for  
25 maturing Records and Information Management (RIM). In 2015, PG&E  
26 brought together the RIM team within each LOB under the new ERIM  
27 Program, which standardized record management practices across the

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<sup>19</sup> Megan Hertzler is PG&E's Director of Enterprise Information Governance. She has over twenty years of legal and compliance experience specializing in the creation and management of information governance programs designed to achieve the responsible management of information assets throughout the lifecycle, including promoting compliance, managing risk and enabling effective business process. She holds a Juris Doctor degree from Mitchell Hamline College of Law, and maintains both a license to practice law in the State of Minnesota and a Certified Information Privacy Professional – US (CIPP-US) certification through the International Association of Privacy Professionals (IAPP).



1 enterprise. The ERIM Program focuses on the deployment of  
2 consistent, integrated processes that support records management  
3 associated with operational safety, regulatory compliance, and  
4 knowledge management. ERIM is responsible for assessing and  
5 inventorying physical and electronic records, establishing specialized  
6 plans for vital records to ensure availability in the event of an emergency  
7 or interruption of service, and monitoring the process controls for  
8 protecting and storing records. The ERIM team coordinates and works  
9 with the Legal Department, Internal Audit, Regulatory Relations,  
10 Information Technology and other lines of business to manage risk,  
11 support compliance, and drive continuous improvement in PG&E's  
12 operations.

13 The ERIM Program has generated several initiatives focused on  
14 maturing records management processes at PG&E. Examples of  
15 recently completed initiatives include: (i) promulgating ERIM policy and  
16 uniform standards to build awareness of requirements, roles, and  
17 responsibilities for governing the identification, control, management,  
18 retrieval, retention, and disposition of records and non-records;  
19 (ii) developing a risk mitigation five-year roadmap; (iii) piloting and  
20 testing retention and disposition processes for physical and electronic  
21 records; (iv) reviewing controls and testing for over 6,000 legal and  
22 regulatory requirements mapped to lines of business; (v) developing an  
23 Enterprise Records Retention Schedule and documenting and certifying  
24 associated records inventories for PG&E's various lines of business;  
25 (vi) developing records process maps for identified Gas Operations  
26 departments; (vii) assessing and monitoring compliance with ERIM  
27 policy and standards; (viii) sunsetting 200 terabytes of personal e-mail  
28 personal folders and automating retention in Outlook, to improve  
29 compliance with the California Consumer Privacy Act and to improve our  
30 ability to manage and retrieve records; (ix) launching multi-faceted  
31 awareness campaigns and extensive field- based awareness training;  
32 and (x) providing recommendations on ERIM best practices.

33 The ERIM program also consults, educates, and partners with the  
34 lines of business to support and implement Program requirements and

1 mature the lines of business's records management practices. This  
2 involves providing training and resources to all PG&E employees,  
3 including those in the field. The LOB Support Team provides quarterly  
4 training to RIM Ambassadors and supports them as they coach field  
5 office employees about how to meet PG&E's record management  
6 requirements. The ERIM Coordinator network also provides Program  
7 awareness and training support in each PG&E division supporting all  
8 lines of businesses and all territories throughout PG&E.

9 **i. Incentivizing Safety Through the Employee Incentive**  
10 **Compensation Plan (A. Vesey)**

11 PG&E has an incentive compensation program called the Short-  
12 Term Incentive Plan (STIP) that provides for cash incentive  
13 compensation to approximately 10,000 employees. PG&E's STIP is  
14 described in the testimony of John Lowe (who focuses on the STIP in  
15 the context of executive compensation). As described in his  
16 testimony, the STIP uses performance metrics for executives that are  
17 weighted 75 percent to customer welfare, and within those metrics, is  
18 predominantly weighted to public safety. This represents industry  
19 leadership: Based on our benchmarking analysis of 19 peer utilities,  
20 only 20 percent of those other companies use customer/public  
21 safety metrics.

22 **j. Verifying the Utility's Safety-Related Filings (A. Vesey)**

23 As part of the recently announced settlement of the Wildfire OII, the  
24 Utility will provide to the Commission verification of safety-related filings  
25 by senior PG&E personnel, as specified in the settlement  
26 documentation. For each such filing, the designated officer or manager  
27 will be tasked with verifying that the filing is accurate and complete.  
28 Verification requirements will be designed to enhance accountability  
29 among senior-level personnel at PG&E as well as transparency and the  
30 public's confidence in PG&E's commitment to safety and reliability.

1       **2. Improving the Customer Experience Through Increased System**  
2       **Reliability (A. Vesey)**

3               As noted, the Utility's new leadership strongly believes that the key to  
4       future success is restoring customer trust and increasing customer  
5       satisfaction. Safety—especially public safety—is critical to this, as is  
6       increasing efficiency, particularly given that customers bear expenses  
7       associated with investments in operations.

8               Building a close relationship with the customer also is imperative, and  
9       PG&E is pursuing ways to improve in this area. One approach under  
10      examination is bringing a more local focus to operations, including potential  
11      regionalization of its operations. Additionally, as part of the recently  
12      announced Wildfire OII settlement, PG&E will provide reports to local  
13      governments in advance of certain planned vegetation management or  
14      system hardening work, upon request and under specified conditions. The  
15      guiding principle is to establish greater partnerships with local jurisdictions,  
16      and to bring the voice of the customer into every decision.

17              Finally, the importance of system reliability to achieving customer  
18      satisfaction cannot be overstated. In this regard, PG&E is intensely focused  
19      on reducing the number of customers affected by PSPS events, and  
20      reducing the frequency and duration of PSPS events. The sole purpose of  
21      undertaking a PSPS is to prevent the Utility's equipment from sparking a  
22      catastrophic wildfire, and thereby to preserve lives and avoid widespread  
23      property damage. The weather events prompting recent shutoffs were  
24      historic, both in scope and severity. Humidity levels dropped to the single  
25      digits. Weather stations recorded wind gusts topping 70-100 miles per hour  
26      in some areas. The warm, sustained winds further dried out brush and  
27      trees, creating dangerous fuels on the ground. Inspections showed  
28      hundreds of instances of damage and hazards, many of which could have  
29      led to a wildfire ignition, had the lines been energized. Thus, the PSPS  
30      events achieved their singular purpose: preventing catastrophic wildfires.  
31      De-energizing and then restoring millions of customers across distinct PSPS  
32      events is a monumental task, requiring coordination, communication and  
33      safe actions, and PG&E is proud to have accomplished this work without  
34      significant workforce injuries. As the Utility stated at a recent Commission

1 hearing, the need for PSPS events are likely to continue for a period of time,  
2 but the Utility understands that PSPS are highly disruptive to its customers  
3 and therefore is taking active steps to reduce the number of customers  
4 affected by PSPS events, and reducing the frequency and duration of  
5 PSPS, through system hardening and other actions. Our goal is to render  
6 PSPS unnecessary as we further adapt our system, tools and practices for  
7 the realities of increasing wildfire risk.

8 The Utility recognizes that it did not execute the recent PSPS events  
9 flawlessly, though execution improved substantially between PSPS events  
10 in a short timeframe, especially with respect to customer accessibility and  
11 coordination with state and local authorities. The Utility recognizes,  
12 moreover, that even a perfectly executed PSPS event presents hardships  
13 for millions of people. The Utility intends to focus on a number of  
14 improvements to reduce the number of customers affected by PSPS events,  
15 and reducing the duration and frequency of PSPS going forward, including:

- 16 • Narrowing the scope of PSPS through measures such as additional  
17 sectionalizing devices, which allow areas unaffected by adverse weather  
18 to remain on, and additional weather stations to provide more precise  
19 local data;
- 20 • Promoting distributed generation enabled microgrids;
- 21 • Reinforcing our website and call centers to handle a much higher  
22 volume during these events;
- 23 • Improving the quality and accessibility of our outage maps;
- 24 • Strengthening coordination with government agencies, including the  
25 Governor's Office of Emergency Services, CAL FIRE, the CPUC,  
26 counties and cities, and tribal governments in our service area;
- 27 • Promoting customer options; and
- 28 • Improving outreach to vulnerable customers.

### 29 **3. Improving Customer Experience Through Regionalization (A. Vesey)**

30 PG&E will improve responsiveness to and services for its customers  
31 through increased regionalization of its operations. Accordingly, PG&E will  
32 develop a reorganization plan ("Regional Restructuring Plan") for its  
33 business lines to create local operating regions that place leadership and  
34 operations closer to their customers. Each region shall be led by an officer

1 of the Utility who reports directly to the Utility CEO. Each region will have its  
2 own safety officer who reports to the CSO. The purpose of the Regional  
3 Restructuring Plan is to assure that PG&E is more responsive and  
4 accountable to the particular needs and circumstances of the customer  
5 base, improve customer service and safety at the local level, and include  
6 customer service focused metrics, such as interconnection, outage  
7 response and other localized safety issues.

8 PG&E will develop this Regional Restructuring Plan and metrics for  
9 implementation of such plan, and following consultation with the Governor's  
10 office will submit the proposed plan to the CPUC. The Regional  
11 Restructuring Plan will be subject to the approval of the CPUC.<sup>20</sup> PG&E will  
12 maintain a Regional Restructuring Plan in effect for at least five years  
13 following the PG&E Plan Effective Date.

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<sup>20</sup> PG&E will implement the Regional Restructuring Plan if the CPUC approves it, including approval of the recovery of the costs of implementation.

**PACIFIC GAS AND ELECTRIC COMPANY**  
**CHAPTER 6**  
**WILDFIRE SAFETY (SCOPING MEMO SECTION 3.1)**

PACIFIC GAS AND ELECTRIC COMPANY  
CHAPTER 6  
WILDFIRE SAFETY (SCOPING MEMO SECTION 3.1)

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**PACIFIC GAS AND ELECTRIC COMPANY**  
**CHAPTER 6**  
**WILDFIRE SAFETY (SCOPING MEMO SECTION 3.1)**

**A. Introduction (*D. Powell*)**

My name is Deborah Powell. I am Vice President, Asset & Risk Management, Community Wildfire Safety Program (CWSP) at Pacific Gas and Electric Company (the Utility). In that role, my responsibilities include overseeing many of the Utility's extensive wildfire safety measures. I report directly to the Utility's Senior Vice President, Electric Operations, Michael Lewis.

I have nearly 30 years of corporate, energy industry, and military experience. Since joining the Utility in 2010, I have served in several senior leadership roles in the Utility's Electric Operations and Power Generation organizations, including Vice President, Power Generation. Prior to joining the Utility, I led the Lower Colorado River Authority's 425 MW Thomas C. Ferguson Power Plant as Plant Manager. I began my career in the United States Navy, serving in a variety of leadership and engineering roles on several combatant ships. I retired from the United States Navy Reserves in 2012. I earned a Bachelor of Science degree in General Science from the United States Naval Academy and am a 2011 graduate of Leadership California.

I understand that Assembly Bill 1054, as codified in Public Utilities Code § 3292(b)(1)(C), requires the California Public Utilities Commission (Commission) to consider "the reorganization plan and other documents resolving [the Utility's] insolvency proceeding, including [whether the Utility's] resulting governance structure [is] acceptable in light of the [Utility's] safety history, criminal probation, recent financial condition, and other factors deemed relevant by the commission." Chapter 5 discusses in detail the Utility's governance and operational structure, including its leadership and programs in the areas of safety, risk, compliance, and customer care. The testimony in this chapter discusses the Utility's programs and management related to wildfire safety in particular.

The testimony in this chapter has three parts. First, the testimony provides an overview of the Utility's organizational structure and management with respect to wildfire safety. Second, the testimony describes the Utility's extensive



1 efforts to mitigate wildfire risk. Third, the testimony discusses the Utility's  
2 strategies to further enhance its Public Safety Power Shutoff (PSPS) Program.

3 **B. Executive Summary (*D. Powell*)**

4 California faces a continued and growing threat of extreme weather and  
5 wildfires. The Utility is focused on the critical role it plays in preventing  
6 electrically-caused wildfires. As an additional precautionary measure following  
7 the 2017 and 2018 wildfires, the Utility has enhanced and expanded its CWSP  
8 to further reduce wildfire risks and keep its customers safe. As part of these  
9 extensive efforts, the Utility has:

- 10 1. Refined its organizational structure to effectively integrate and prioritize  
11 wildfire mitigation.
- 12 2. Implemented aggressive measures to reduce the risk of wildfires, including  
13 through enhanced vegetation management, increased safety inspections,  
14 system hardening, and its PSPS Program.
- 15 3. Taken numerous steps to further enhance communication and coordination  
16 with respect to its PSPS Program, and to reduce the impact and scope of  
17 PSPS events. PG&E has consistently affirmed its commitment to learn and  
18 improve with each PSPS event that occurs, as the company understands  
19 that these events, although at times necessary to reduce the risk of  
20 catastrophic wildfires, create significant disruptions and hardships for its  
21 customers.

22 **C. Organizational Structure and Governance (*D. Powell*)**

23 **1. Electric Operations Organization**

24 Mitigating the increasing wildfire risk is an enormous, complex  
25 challenge that requires extensive resources and coordination across various  
26 functions within the Electric Operations organization, including engineering,  
27 vegetation management, inspections and maintenance, distribution and  
28 transmission operations, and effective stakeholder engagement. The  
29 Utility's Electric Operations organization recognizes wildfire as its greatest  
30 risk and top priority, and its various groups work together to effectively and  
31 efficiently mitigate the risk of wildfire and promote safety.

32 Wildfire safety is embedded and integrated into processes and activities  
33 throughout the Electric Operations organization. The Utility's Asset, Risk

1 Management, and CWSP team is primarily responsible for engineering, fire  
2 prevention and mitigation, vegetation management,<sup>1</sup> fire response, fire  
3 forecasting, stakeholder engagement, communications, and fire safety  
4 research and development. But other teams within the Electric Operations  
5 organization play a critical role in those efforts. For example, the Major  
6 Projects and Programs team is responsible for performing wildfire risk  
7 mitigation activities such as system hardening and PSPS mitigation.  
8 The Regulatory Compliance and Quality Assurance team provides quality  
9 oversight and expertise for the Enhanced Vegetation Management (EVM)  
10 Program described below. And the Distribution Operations and  
11 Transmission Operations field teams perform ongoing maintenance and  
12 repairs of facilities in High Fire Threat Districts (HFTD).

13 The Utility utilizes a risk-based approach to identify and address the  
14 assets most at risk of wildfire ignition and in areas with greatest potential fire  
15 spread. The Asset, Risk Management, and CWSP organization balances  
16 expenditures and uses location- and asset-based tools to help define  
17 budgeting priorities. The Utility recently updated its risk prioritization  
18 methodology and has been incorporating the feedback and learnings from  
19 the 2019 wildfire season into its planning for 2020 and beyond.<sup>2</sup> To ensure  
20 best practices with respect to wildfire safety, the Utility has benchmarked  
21 extensively with other California utilities, with utilities in Australia, and with  
22 other peers through the Edison Electric Institute.

## 23 **2. Oversight**

24 The CWSP team is highly visible and accountable within the Utility.  
25 For example, the team meets every two weeks with an officer-level steering  
26 committee to discuss and coordinate wildfire safety-related efforts and  
27 strategy. The steering committee is cross-functional and includes officers  
28 from stakeholders such as risk management, land and environmental affairs,  
29 customer relations, sourcing, and regulatory affairs. In addition, the CWSP

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1 In 2020, the Vegetation Management Program will transition to the Major Projects and Programs team within Electric Operations.

2 The Utility will submit its 2020-2022 Wildfire Mitigation Plan with the Commission on February 7, 2020.

team reports regularly to the Boards of the Utility and PG&E Corporation regarding the Utility's progress with respect to its Wildfire Safety Plan goals.

#### **D. The Utility's Extensive Wildfire Safety Efforts (M. Pender<sup>3</sup>)**

In response to the unprecedented wildfires in 2017 and 2018, the Utility implemented numerous measures to mitigate the risk of wildfires and to promote safety, as was reflected in its 2019 Wildfire Safety Plan.<sup>4</sup> The Utility is committed to continuous learning and improvement in this area, and it engages in efforts to monitor and evaluate its work so that it can address any potential shortcomings and improve. The Utility is in the process of finalizing its 2020-2022 Wildfire Mitigation Plan, to be submitted to the Commission on February 7, 2020, and can provide further detail at that time regarding continuing improvements for 2020 and beyond. The Utility continues to make significant enhancements to its programs and infrastructure to maximize safety and mitigate wildfire risk moving forward.

##### **1. Enhanced Vegetation Management Program**

Because vegetation contact with power lines is a leading cause of electrically-caused fire ignitions in HFTD areas, the Utility has aggressively expanded vegetation management efforts around its assets to further mitigate wildfire risk. In 2018, the Utility began implementing risk-based enhanced vegetation management activities. The Utility's EVM Program targets vegetation with the potential to impact power lines in HFTD areas and includes the following activities: (i) removal of vegetation to establish

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<sup>3</sup> Matthew Pender is the Director of Electric Regulatory Strategy and the Program Management Office for the Utility's CWSP, focused on enabling the successful implementation of the full suite of efforts the Utility is undertaking to further reduce the risk of wildfires. Since joining the Utility in 2006 as a Gas Engineer, Mr. Pender has held leadership positions in Gas Operations, Electric Operations, Land Management, and Vegetation Management.

<sup>4</sup> See The Utility's Amended 2019 Wildfire Safety Plan (February 6, 2019), *available at* [https://www.pge.com/pge\\_global/common/pdfs/safety/emergency-preparedness/natural-disaster/wildfires/Wildfire-Safety-Plan.pdf](https://www.pge.com/pge_global/common/pdfs/safety/emergency-preparedness/natural-disaster/wildfires/Wildfire-Safety-Plan.pdf). The Utility's Wildfire Safety Plan is its submission pursuant to statutory requirements and direction provided by the Commission in its *Order Instituting Rulemaking to Implement Electric Utility Wildfire Mitigation Plans Pursuant to Senate Bill 901 (2018)*, Rulemaking (R.) 18-10-007.

1 12 feet of radial clearance around conductors;<sup>5</sup> (ii) removal or pruning of  
2 overhanging branches and limbs to maintain conductor-to-sky clearance  
3 within a zone extending 4 feet on either side of the conductors; (iii) targeted  
4 removal of trees that are determined to pose a high risk of striking power  
5 lines under the Utility's risk-informed tree analysis; and (iv) performance of  
6 "ground to conductor" vegetative fuel reduction work to create fire defense  
7 zones under and adjacent to power lines in select locations. This program  
8 goes well beyond what is required by applicable state and federal  
9 regulations and is performed in addition to the Utility's regular ongoing  
10 vegetation work.

11 To ensure that its EVM Program is effective, the Utility performs  
12 post-work verification—a separate check by a certified arborist or  
13 experienced vegetation management professional—on 100 percent of the  
14 circuit miles within the Program's scope to identify and address any  
15 incomplete work or missed trees. As an additional quality check, the Utility  
16 also has deployed a quality assurance team to review a sample of  
17 randomly-selected circuit segments after the post-work verification is  
18 complete.

19 To PG&E's knowledge, the Utility's EVM Program is unprecedented in  
20 terms of its scope, scale, and pace of implementation. Notably, the Utility  
21 exceeded its aggressive goal of performing EVM work on approximately  
22 2,450 circuit miles in HFTDs by the end of 2019, completing EVM work on a  
23 total of approximately 2,500 line miles and working approximately  
24 65,000 trees along those line miles. In addition, as discussed in Chapter 8,  
25 the Utility has implemented several measures to improve the quality of its  
26 vegetation management work and records management in response to  
27 feedback from the Federal Monitor and the Utility's own internal findings.<sup>6</sup>  
28 These measures include enhanced training, added layers of quality review,

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<sup>5</sup> State vegetation and fire safety standards only require radial clearances of 4 feet around power lines in HFTD areas. See General Order 95, Rule 35; Pub. Resources Code § 4293. The guidelines to Rule 35 recommend minimum clearances of 12 feet or more at the time of pruning to ensure compliance year-round, and the EVM Program is intended to adhere to this recommendation.

<sup>6</sup> See Ch. 8 at 18-20.

1 additional personnel, steps to improve the accuracy of its mapping, and  
2 improvements related to the applications used for records management.

## 3 **2. Wildfire Safety Inspection Program**

4 To further reduce the risk of wildfire from equipment failure—another  
5 leading cause of electrically-caused fire ignitions—the Utility developed and  
6 implemented its ambitious Wildfire Safety Inspection Program (WSIP).  
7 WSIP provided for accelerated safety inspections of electric infrastructure in  
8 HFTD areas as additional precautionary measures following the 2017 and  
9 2018 wildfires. The Utility used enhanced criteria for the inspections based  
10 on identification of individual electric system components that can create  
11 a risk of potential wildfire ignition. As part of this Program, more than  
12 2,000 Utility employees and contractors conducted enhanced safety  
13 inspections, in addition to the Utility's ongoing routine inspections and  
14 maintenance programs.

15 The Utility has completed 100 percent of its enhanced safety inspections  
16 on approximately 700,000 distribution structures, approximately  
17 50,000 transmission structures, and 222 substations, although the  
18 inspections were completed after the Utility's original May 2019 target due to  
19 a combination of factors,<sup>7</sup> and the Utility continues to engage in ongoing  
20 quality assessment efforts. These enhanced inspections included ground  
21 inspections of electric poles, ground or climbing visual inspections of  
22 transmission structures, and drone and helicopter inspections of all  
23 transmission, and select distribution, facilities. Throughout the inspection  
24 process, the Utility has taken immediate action to address issues identified  
25 as an imminent risk to public or workforce safety and has completed other  
26 high-priority repairs on an accelerated basis.

---

7 The Utility completed these goals after May 2019 due to factors such as inclement weather; limited availability of equipment, materials, and qualified personnel; and legal and regulatory challenges (including objections from property owners or governmental agencies and environmental permitting requirements). The Utility has provided the Commission with periodic status updates on its WSIP commitments, including the status of inspections and high-priority corrective actions, beginning in May 2019.

### 3. System Hardening

In 2018, the Utility initiated its long-term System Hardening Program, which reduces potential fire risk by strengthening its overhead electric distribution system, replacing aging assets, and reducing ignition potential from external factors, such as animals or vegetation contacting lines.

The Utility's system hardening measures include replacing bare overhead conductor with covered conductor, select undergrounding where appropriate, replacing equipment with equipment identified by the California Department of Forestry and Fire Protection (CAL FIRE) as lower fire risk, and installing more resilient poles to increase pole strength and fire resistance.

The Utility exceeded its goal of hardening its 150 highest-risk miles in 2019 and has completed approximately 189 miles to date. The Utility is in the process of upgrading its electric system over a period of approximately 12 to 14 years by installing approximately 7,100 miles of stronger poles and covered power lines in HFTD areas that it has identified through ignition modeling and field analysis as the highest threat.

### 4. Public Safety Power Shutoff Program

In 2018, the Utility implemented its PSPS Program to proactively de-energize lines under extreme fire risk conditions. PG&E's most important responsibility is safety, and in certain conditions, public safety is best served by implementing a PSPS event to reduce the risk of catastrophic wildfires. PG&E recognizes the seriousness of each PSPS event, however, and has been actively taking steps to reduce the duration, frequency, and impact of PSPS events, as explained in detail in Section E below.

### 5. Situational Awareness Technologies

The Utility has been increasing its knowledge of real-time local weather and environmental conditions on a more granular level by installing new weather stations and high-definition cameras. The Utility has installed more than 600 weather stations and 130 high-definition cameras to date, and plans to have installed approximately 1,300 weather stations and 600 cameras by 2022. Relatedly, the Utility has also been enhancing its situational awareness toolset by increasing the granularity of weather

forecasting, modeling how weather events impact the Utility's facilities, and modeling potential fire spread.

## **6. Wildfire Safety Operations Center**

In 2018, the Utility opened its Wildfire Safety Operations Center (WSOC) to monitor conditions in real-time, 24/7 during wildfire season and to coordinate prevention and response efforts. The Center is a physical facility that serves as the central hub for wildfire-related information.

## **7. System Operations**

Reclosing devices such as circuit breakers and reclosers are used to quickly and safely de-energize lines when a problem is detected and re-energize lines when the problem is cleared. The Utility makes informed decisions on when to disable reclosers during elevated fire conditions in Tier 2 and Tier 3 HFTD areas. When reclosers are disabled, all identified faults are removed from the electric grid, which reduces the risk of potential ignitions. Following the 2017 wildfires, the Utility implemented the Wildfire Reclosing Disable program to disable automated reclosing during elevated wildfire conditions in Tier 2 and Tier 3 HFTD areas for distribution and transmission lines 115 kilovolts and below. In 2019, the program included more than 2,700 reclosing devices on distribution lines and reclosing devices on nearly 400 transmission lines. In 2020, the Utility intends to disable reclosers for the duration of the wildfire season. The Utility has upgraded the vast majority of its reclosing-capable devices with Supervisory Control and Data Acquisition (SCADA) capability to enable remote operation in Tier 2 and Tier 3 HFTD areas.

## **8. Alternative Technologies**

The Utility has been exploring and testing various cutting-edge system protection technologies. For example, the Utility has been testing Rapid Earth Fault Current Limiter and distribution fault anticipation. The Utility also has enabled single-phase SmartMeters™ to send real-time alarms to the Distribution Management System under partial voltage conditions (25-75 percent of nominal voltage). This enhanced situational awareness can help detect and locate downed distribution lines more quickly to enable faster response.



1 The Utility also partners with outside researchers to test new  
2 technologies. For example, the Utility is partnering with the Department of  
3 Energy and national labs to test line sensing technologies with the goal of  
4 capturing grid signatures that can be used as early indicators of arcing to  
5 identify and mitigate fire risk.

## 6 **9. Additional System Enhancements**

7 Under the recently announced 2017/2018 Wildfire Order Instituting  
8 Investigation (OI) settlement, the Utility has committed to not seek rate  
9 recovery of \$1.625 billion in wildfire-related expenditures and to spend  
10 \$50 million in shareholder-provided funds to undertake 20 System  
11 Enhancement Initiatives.<sup>8</sup> The System Enhancement Initiatives build on the  
12 system modifications the Utility has already undertaken and encompass  
13 initiatives related to vegetation management, electric operations, evidence  
14 preservation and reporting obligations, community engagement,  
15 transparency and accountability, and information gathering.

16 For example, the Utility has committed to establish a tree crew training  
17 and certificate program to increase the availability of qualified tree crew  
18 workers to assist the Utility's vegetation management-related wildfire risk  
19 mitigation efforts. In addition, the Utility has committed to submit quarterly  
20 reports to the Commission's Safety and Enforcement Division (SED)  
21 summarizing the status of transmission and distribution maintenance work  
22 generated by the Utility's WSIP to assist SED in its ongoing oversight.  
23 Further, the Utility has committed to hold multiple, region-specific meetings  
24 with local government planning, public works, emergency services, and fire  
25 leadership at least every 6 months to exchange feedback and information  
26 regarding ongoing wildfire safety activities.

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8 See Joint Motion for Approval of Settlement Agreement, *Order Instituting Investigation on the Commission's Own Motion into the Maintenance, Operations and Practices of Pacific Gas and Electric Company (U39E) with Respect to its Electric Facilities; and Order to Show Cause Why the Commission Should not Impose Penalties and/or Other Remedies for the Role PG&E's Electrical Facilities had in Igniting Fires in its Service Territory in 2017*, Investigation (I.) 19-06-015, at 15-31 and Ex. C (December 17, 2019).



## 1 E. Public Safety Power Shutoff Program (*T. Maratukulam*<sup>9</sup>)

### 2 1. Decision-Making Process

3 PG&E does not take the decision to de-energize lightly. PG&E  
4 recognizes that even a perfectly executed PSPS event will impose  
5 hardships on individuals and communities, and particularly those in  
6 vulnerable circumstances.

7 The following video provides an overview of the science and  
8 decision-making around PSPS events:

9 [https://players.brightcove.net/3399141204001/default\\_default/index.html?vid](https://players.brightcove.net/3399141204001/default_default/index.html?videoId=6117130015001)  
10 [eold=6117130015001](https://players.brightcove.net/3399141204001/default_default/index.html?videoId=6117130015001).

11 As discussed in the video, when determining if power must be turned off  
12 for safety, the Utility carefully reviews and evaluates a combination of  
13 factors, including the following:

- 14 • A Red Flag Warning declared by the National Weather Service;
- 15 • Low humidity levels, generally 20 percent and below;
- 16 • Forecasted sustained winds generally above 25 miles per hour (mph)  
17 and wind gusts in excess of approximately 45 mph, depending on  
18 location and site-specific conditions such as temperature, terrain,  
19 and local climate;
- 20 • Condition of dry fuel on the ground and live vegetation (moisture  
21 content); and
- 22 • On-the-ground, real-time wildfire related information from the Utility's  
23 WSOC and field observations from field crews.

24 When the Utility's Meteorology team forecasts elevated PSPS potential,  
25 the Utility first initiates a Readiness Posture. During the Readiness Posture,  
26 the Utility engages in various activities to prepare for potential PSPS events,  
27 including with respect to refining the scope of any PSPS, preparing tools  
28 and communications for external outreach, ensuring system readiness,  
29 and preparing operations to restore service as quickly as possible in a  
30 safe manner.

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9 <sup>9</sup> Tracy Maratukulam is the Director of the Utility's PSPS Program, focused on building and enabling successful execution of PSPS events. Since joining the Utility in 2002 as a Telecommunications Engineer, Ms. Maratukulam has held leadership positions in Information Technology and Electric Operations.

1 When there is a reasonable chance of executing PSPS to reduce public  
2 safety risk in a given geographic zone due to a combination of adverse  
3 weather and dry fuel conditions, the Emergency Operations Center (EOC)  
4 is activated, with a designated Officer in Charge. The Officer in Charge is  
5 responsible for key decisions throughout the PSPS process, including  
6 activation of the EOC; notification to potentially affected customers; approval  
7 of event scope, including transmission assets; the decision to de-energize;  
8 and the determination as to when conditions are safe to begin restoration.  
9 The Officer in Charge is the Senior Vice President of Electric Operations,  
10 or his or her delegate. The Utility's Planning and Intelligence, Operations,  
11 and other Incident Command Structure teams continually monitor the latest  
12 weather forecasts and local conditions and continuously update the Officer  
13 in Charge on the real-time status. The Officer in Charge evaluates whether  
14 to implement a PSPS based on these inputs. As the meteorological data  
15 becomes more certain, the Utility then discusses adjustments to the scope  
16 of the de-energization.

## 17 **2. Program Strategies**

18 The Utility has undertaken significant efforts to further enhance its  
19 PSPS Program.<sup>10</sup> For example, the Utility has implemented measures to  
20 limit the number of customers potentially impacted by a PSPS event,  
21 including the following:

- 22 • The Utility has installed sectionalizing devices that can help limit the  
23 geographical impact of de-energization and accelerate the restoration  
24 process;
- 25 • The Utility has upgraded its devices with SCADA capability to enable  
26 remote operation of 100 percent of all line reclosers in Tiers 2 and 3  
27 HFTD areas; and
- 28 • The Utility has installed new weather stations that provide more granular  
29 weather data to more accurately model and pinpoint specific regions

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<sup>10</sup> See generally The Utility's Response to OII I.19-11-013, *Order Instituting Investigation on the Commission's Own Motion on the Late 2019 Public Safety Power Shutoff Events*, I.19-11-013 (December 13, 2019) (discussing the Utility's efforts in greater detail).

1 forecast to experience PSPS conditions and high-definition cameras that  
2 enhance real-time weather awareness during PSPS events.

3 In addition, the Utility has taken numerous steps to promote coordination  
4 with its external partners in connection with PSPS events, including the  
5 following:

- 6 • Team members from the California Governor's Office of Emergency  
7 Services (OES) and the CAL FIRE were embedded in the Utility's EOC  
8 while it was activated for late 2019 PSPS events so that they had  
9 up-to-date information and were highly engaged (the Utility had team  
10 members embedded at OES as well);
- 11 • The Utility provided Utility liaison representatives in certain local EOCs  
12 who could share information with the counties and work to resolve  
13 unique, local issues;
- 14 • The Utility developed a cloud-based solution to share key event  
15 information with counties while maintaining use of the PSPS portal;
- 16 • The Utility created a dedicated helpline, monitored 24/7, for special  
17 requests from counties and tribes;
- 18 • The Utility offered each county access to a Geographic Information  
19 System mapping specialist who could provide additional real-time  
20 information and technical support; and
- 21 • The Utility has established single points of contacts to interface with the  
22 counties to form stronger working relationships with them and to obtain  
23 a more comprehensive understanding of their individual needs.

24 The Utility also has implemented measures to mitigate the impact of  
25 PSPS events on its customers, especially vulnerable populations, including  
26 the following:

- 27 • The Utility notifies potentially impacted customers of a PSPS event  
28 through several channels, as possible, as early as approximately  
29 48 hours before electricity is turned off, approximately 24 hours before  
30 electricity is turned off, just before electricity is turned off, during the  
31 public safety outage, and once power has been restored.
- 32 • The Utility has reinforced and improved its website and call center  
33 resources to increase their capacity.

- 1 • The Utility has provided strategic temporary microgrids and temporary  
2 generation support to support public safety and societal continuity  
3 concerns, such as water treatment and pumping, medical centers,  
4 and tunnels, during PSPS events.
- 5 • The Utility has implemented repeatable, formalized processes to reach  
6 customers enrolled in its Medical Baseline Program, including emails,  
7 texts, and calls to such customers with a request for acknowledgement,  
8 followed by repeat calls and texts until contact is successfully made.  
9 If acknowledgment of notification is not received, a Utility representative  
10 is sent to notify the customer in person, or leave an informational door  
11 hanger, if needed.
- 12 • The Utility has mobilized collaborative Community Resource Center  
13 operations across more than 80 sites. The Utility has worked with local  
14 officials and public safety partners to identify potential site locations and  
15 local needs.

16 PG&E has been incorporating learnings from 2019 to focus on  
17 minimizing the frequency, scope, and duration of PSPS events moving  
18 forward. After each PSPS event, the Utility conducts an After Action Review  
19 to consider internal and external feedback about the event. The Utility also  
20 addresses “Lessons Learned” in the reports that it files with the Commission  
21 following each PSPS event. The Utility is continuing efforts to improve  
22 PSPS implementation in light of these evaluations.

23 For the 2020 wildfire season, as a result of leveraging more granular  
24 data and deploying additional sectionalizing devices, field team pre-  
25 positioning, microgrids, and other activities, the Utility is targeting to reduce  
26 the number of customers affected by individual PSPS events by nearly  
27 one-third<sup>11</sup> and to cut restoration time in half after the PSPS-inducing  
28 weather has cleared.

29 Further, although the Utility’s execution of its PSPS Program  
30 accomplished its objectives of preventing ignition of catastrophic wildfires  
31 while minimizing public safety impact, PG&E recognizes there are

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<sup>11</sup> As compared to the number of customers who would have been impacted if these additional mitigations were not in place, using the 2019 PSPS events as a benchmark.

1 opportunities to reduce the required scope of future events and the  
2 associated customer impact through its System Hardening Program (which  
3 itself reduces the overall wildfire risk from PG&E assets). For example,  
4 over the next several months to years, PG&E plans to monitor and collect  
5 information on the operating performance of its hardened distribution  
6 facilities with the goal of being able to adjust its PSPS criteria for its  
7 hardened distribution facilities on a location by location basis.

**PACIFIC GAS AND ELECTRIC COMPANY**  
**CHAPTER 7**  
**EXECUTIVE COMPENSATION (SCOPING MEMO SECTION 3.1)**

PACIFIC GAS AND ELECTRIC COMPANY  
CHAPTER 7  
EXECUTIVE COMPENSATION (SCOPING MEMO SECTION 3.1)

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**PACIFIC GAS AND ELECTRIC COMPANY**  
**CHAPTER 7**  
**EXECUTIVE COMPENSATION (SCOPING MEMO SECTION 3.1)**

**A. Executive Summary**

- Consistent with best practices and Assembly Bill (AB) 1054, a majority of the compensation for senior executives of Pacific Gas and Electric Company (the Utility, and together with PG&E Corporation, PG&E) will, upon emergence from Chapter 11, be at risk.
- PG&E's Short-Term Incentive Plan (STIP) will use objective, verifiable, and auditable performance metrics weighted predominantly to customer and workforce welfare, and within that category, primarily to wildfire safety and other public and employee safety metrics. This executive compensation design will lead the industry in its focus on safety.
- PG&E's Long-Term Incentive Plan (LTIP) upon emergence also will use objective, verifiable, and auditable performance metrics tied to customer welfare, and within that category, primarily wildfire safety and Public Safety Power Shutoff (PSPS) related safety. LTIP awards will consist of equity-based long-term compensation, which will meet the three-year holding requirement of AB 1054.
- For both the STIP and the LTIP, risk-related performance metrics will be informed by PG&E's Enterprise and Operational Risk Management (EORM) program, which in turn is informed by the California Public Utilities Commission's (Commission) Safety Model Assessment Proceeding (SMAP) and Risk Assessment Mitigation Phase proceeding (RAMP).
- The LTIP's PSPS-related metrics will be informed by the Utility Wildfire Mitigation Maturity Model the Commission is developing in Rulemaking (R.) 18-10-007.
- PG&E's executive compensation structure applicable upon emergence from Chapter 11 will comply with AB 1054, including by:
  - Promoting safety as a priority;
  - Promoting financial stability;
  - Using objective, measurable, and enforceable performance metrics;



- 1           – Preserving the discretion of the Utility's Board of Directors and the
- 2           Compensation Committee of PG&E Corporation's Board of Directors to
- 3           reduce or eliminate incentive compensation awards;
- 4           – Basing the majority of executive compensation on objective
- 5           performance metrics via the STIP and LTIP, at target levels; and
- 6           – Requiring that a significant portion of compensation be equity-based and
- 7           held for at least three years.

## 8   **B. Introduction**

9           My name is John Lowe. I am Senior Director, Total Rewards for PG&E.  
10          I lead the Compensation and Benefits functions, which are responsible for  
11          design and implementation of PG&E's compensation and benefits programs and  
12          practices, including PG&E's executive compensation programs. I joined PG&E  
13          in 2012 as Director of Executive Compensation before accepting my current  
14          position in June 2016. I have worked in the field of Human Resources for more  
15          than 35 years, 25 of which have been specifically focused in the area of  
16          compensation. Prior to joining PG&E, I was the Manager of Compensation for  
17          Michigan-based energy provider DTE Energy Company, Director of  
18          Compensation and Benefits at Holly Automotive Division, Coltec Industries, and  
19          spent years consulting on compensation and benefits strategies with The  
20          UL Group, Ltd. consulting firm. I hold a Bachelor of Science in Human  
21          Resources Management from Oakland University and a Master of Arts in  
22          Industrial Relations from Wayne State University.

23          I understand that AB 1054, as codified in Public Utilities Code  
24          § 3292(b)(1)(C), requires the Commission to consider "the reorganization plan  
25          and other documents resolving [the Utility's] insolvency proceeding, including  
26          [whether the Utility's] resulting governance structure [is] acceptable in light of the  
27          [Utility's] safety history, criminal probation, recent financial condition, and other  
28          factors deemed relevant by the commission."<sup>1</sup> I further understand that  
29          AB 1054, as codified in § 8389(e)(6)(C), provides that "any approved bankruptcy  
30          reorganization plan of an electrical corporation should, in regards to  
31          compensation for executive officers of the electrical corporation, comply with the  
32          requirements of [§ 8389(e)(4) and (e)(6)]." I believe, and I understand that the

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1   All further statutory references are to the Public Utilities Code.

1 PG&E Corporation Compensation Committee believes, that the executive  
2 compensation structure described below, which the Utility intends to have in  
3 place upon emergence from Chapter 11, not only meets but exceeds AB 1054's  
4 requirements. The Utility hereby formally requests that the Commission approve  
5 this executive compensation structure pursuant to §§ 3292(b)(1)(C) and 8389(e).

6 My testimony below has three parts. First, I provide an overview of key  
7 executive compensation principles, including how a well-designed compensation  
8 program can align with achievement of a company's goals and objectives (which  
9 in PG&E's case include, as the top priority, promoting customer welfare,  
10 especially in the area of safety). Second, I describe the background and  
11 parameters of the executive compensation structure that the Utility plans to have  
12 in place upon its emergence from Chapter 11, focusing in particular on  
13 performance-based compensation awardable under PG&E's STIP and LTIP. As  
14 I discuss below, these programs will heavily incentivize customer welfare and  
15 safety—far more than the compensation programs of utilities historically have—  
16 consistent with PG&E's safety priorities. Third and finally, I discuss the ways in  
17 which the Utility's overall executive compensation structure that will apply upon  
18 emergence will address the requirements of § 8389(e)(4) and (e)(6).

### 19 **C. Overview of Executive Compensation Principles**

20 Executive compensation is an important element of attracting and retaining  
21 talented leaders, and aligning their compensation with achievement of an  
22 organization's objectives. In PG&E's case, this includes safeguarding and  
23 improving customer welfare by compensating outcomes that are specifically  
24 related to safety culture and performance.

25 Executive compensation divides into two broad categories: (i) foundational  
26 compensation; and (ii) performance-based or incentive compensation  
27 (sometimes called "at risk" compensation). The two together are necessary to  
28 provide a market-competitive level of compensation.

29 Foundational compensation provides an executive with a stable foundation  
30 of income and other benefits. It includes base salary and certain other items  
31 such as health and pension benefits. Performance-based compensation, by  
32 contrast, is not guaranteed and serves different purposes. As its name implies,  
33 it is designed primarily to align compensation with various kinds of performance  
34 or conduct, and thus is contingent on such performance or conduct.

1 Performance-based compensation can be contingent in one or more of  
2 several ways. First, it may be paid only if specified criteria are met. An example  
3 would be cash that is paid only if the executive satisfies certain individual  
4 performance goals, if the business unit the executive leads achieves stated  
5 objectives, or if the company as a whole meets certain milestones. Second,  
6 performance-based compensation might be paid without meeting certain  
7 performance metrics, but nevertheless remain contingent on performance  
8 because its value depends on the performance of the company as a whole. An  
9 example would be restricted stock units that vest based on length of service;  
10 although such units vest based solely on the passage of time (and thus serve a  
11 retention purpose), their value depends on the company's stock price, which in  
12 turn depends on the company's performance across a variety of areas  
13 (e.g., avoiding catastrophic public safety incidents, operating efficiently, or  
14 earning the company's allowed rate of return). Third, performance-based  
15 compensation can be contingent for both reasons, i.e., it might be paid only if  
16 performance metrics are met, and its value further may depend on performance.  
17 An example would be performance shares that are settled/paid only upon  
18 achievement of performance metrics, with their value dependent on the stock  
19 price and thus dependent on overall company performance.

20 In April 2017, Willis Towers Watson, an international advisory firm that  
21 PG&E uses as a consultant, published a study entitled *Principles and Elements*  
22 *of Effective Executive Compensation Design*.<sup>2</sup> It took into account, among other  
23 things, "the views of hundreds of board members across various organizations  
24 and industries" and the views expressed during "a series of in-depth workshops  
25 to distill the insights and experience of more than 100 ... senior EC [executive  
26 compensation] consultants."<sup>3</sup> Willis Towers Watson reported that "[w]hile there  
27 is little consensus on the specific principles that should guide EC decisions, ...

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2 According to Willis Towers Watson: "[It] is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 40,000 employees serving more than 140 countries. [It] design[s] and deliver[s] solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals." Willis Towers Watson, *Principles and Elements of Effective Executive Compensation Design*, at 51 (Apr. 2017).

3 *Id.* at 1.

1 the views of diverse stakeholders have coalesced around a loosely shared point  
2 of view on what's right and wrong with pay at the top of the house in major  
3 organizations today.”<sup>4</sup> Willis Towers Watson's report contains some guideposts  
4 for best practices in designing executive compensation programs, including the  
5 following:<sup>5</sup>

6 First, “EC programs should incent and reward the behaviors and processes  
7 that reinforce the activities organizations undertake to create sustainable long-  
8 term value for multiple stakeholders” (in PG&E's case, customer welfare and  
9 safety as the highest priorities).<sup>6</sup> Executive compensation should incentivize  
10 management to achieve positive outcomes for shareholders *and other*  
11 stakeholders (e.g., in the context of a regulated utility, customers and the public).  
12 As Willis Towers Watson explains, “While the creation of value for an  
13 organization's shareholders is the overriding imperative for public companies,  
14 the creation of value for other stakeholders is an important means to this end.”<sup>7</sup>

15 Second, “[f]or senior executives, a majority of [overall compensation] should  
16 be in the form of incentive compensation; [and] a majority of incentive  
17 compensation should be in the form of LTIs [long-term incentives].”<sup>8</sup> A well-  
18 designed executive compensation structure nevertheless should recognize that  
19 “the creation of value needs to be viewed ... over multiple time frames in light of  
20 short- and long-term outcomes.”<sup>9</sup>

21 Third, “[o]rganizations should carefully evaluate and define the objectives  
22 associated with their incentive plans and should align plan features (e.g., vehicle  
23 and performance measures) with these objectives.”<sup>10</sup> In other words, a

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4 *Id.* at 2.

5 I do not discuss all the principles articulated in the Willis Towers Watson report, but only certain principles that the Commission may find most relevant to whether the Utility's executive compensation structure fulfills the criteria of AB 1054.

6 *Id.* at 8.

7 *Id.* at 9.

8 *Id.* at 15.

9 *Id.* at 8.

10 *Id.* at 16; see also *id.* (“[O]rganizations should put great[] emphasis on establishing well-conceived objectives and considering their short-term and LTI plans in totality as part of an overall portfolio.”); *id.* at 17 (“Performance measures ... should be selected in light of the organization's long-term strategy.”).

1 company should have a clear idea of what it wants to incentivize, and should  
2 design its compensation vehicles and performance metrics accordingly (while  
3 guarding against and mitigating any unintended adverse incentives).

4 Fourth, a performance-based compensation “strategy should address ... the  
5 desired targeted reward positioning at varying levels of performance.”<sup>11</sup> In other  
6 words, a performance-based compensation program should clearly define  
7 applicable performance metrics and achievement of those metrics, and specify  
8 the financial benefits of achieving them to varying degrees. Implicit in this is the  
9 principle that targets must be realistically achievable; if they are perceived as out  
10 of reach, they will not have their desired incentive effect. To illustrate, a well-  
11 designed incentive program might include: (i) minimum or “threshold” metrics  
12 that must be met before any incentive payment is made;<sup>12</sup> (ii) “target” metrics  
13 that are more challenging but still reasonably achievable, and that result in  
14 higher payouts necessary to provide a market-competitive level of  
15 compensation; and (iii) “maximum” metrics that are even more ambitious but still  
16 within the realm of possibility, and that result in even higher payouts to provide  
17 even greater incentives to achieve desired outcomes.

18 Fifth, “[d]iscretion is a critical tool,” whether used positively or negatively.<sup>13</sup>  
19 For example, situations can arise in which performance metrics are met and  
20 incentive payments are payable, but the compensation committee or board of  
21 directors determines that such payments nevertheless are inappropriate for  
22 some reason (e.g., because of a catastrophic public safety incident).  
23 Empowering the board or its compensation committee to reduce, eliminate,  
24 suspend, or defer incentive programs or payments thereunder (subject to legal  
25 restrictions) can be important for ensuring that incentive payments are not made  
26 inappropriately under the totality of the circumstances. After the devastating  
27 wildfires in 2018, the prior Compensation Committee of the PG&E Corporation

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<sup>11</sup> *Id.* at 10; see also *id.* at 20 (“The thoughtful determination of the incentive plan’s targets as well as its performance and payout ranges are critical for the plan’s effectiveness.”); *id.* at 17 (“The[] measures should be transparent, and plan participants should understand how they can directly influence the outcomes with regard to the measures.”).

<sup>12</sup> See *id.* at 20 (“[O]rganizations should establish a reasonable floor or minimum standard below which incentives will not be paid to senior executives ...”).

<sup>13</sup> *Id.* at 21.

1 Board eliminated all 2018 STIP payments that otherwise would have been  
2 earned by senior executives.

3 **D. The Utility's Executive Compensation Structure**

4 PG&E uses the same compensation structure for the executives of both  
5 PG&E Corporation and the Utility. PG&E's executive compensation structure  
6 that will apply upon emergence from Chapter 11 will differ substantially from the  
7 structure PG&E has used in the past. PG&E's revised structure will strongly  
8 align compensation with safety *outcomes*—much more than PG&E and other  
9 utilities historically have. This is consistent with customer and workforce welfare  
10 and safety being PG&E's highest priorities and the foundations of its future  
11 success.

12 PG&E has developed its new executive compensation design through a  
13 robust process. Briefly, its executive compensation professionals, including  
14 myself and others, developed recommended program features, such as the  
15 overall mix of compensation (including foundational versus performance-based  
16 compensation, and within performance-based, different types of awards such as  
17 cash incentive payments and performance shares). We worked with senior  
18 leaders and the operating units to identify the applicable categories of  
19 performance metrics, relative weightings of the metrics in calculating awards,  
20 how achievement of the metrics will be evaluated and measured, and so forth.  
21 We also worked with Willis Towers Watson, which as noted above is a  
22 recognized leader in executive compensation design.

23 The PG&E Corporation Compensation Committee played an integral role in  
24 the process. The Committee currently is comprised of independent directors  
25 Meridee A. Moore (the Chair), William L. Smith, and Alejandro D. Wolff, all of  
26 whom joined the PG&E Boards in 2019 with significant operating, compensation,  
27 and board experience. The Committee worked closely with PG&E's senior  
28 management, internal executive compensation professionals, and independent  
29 consultants through an iterative process to formulate the executive  
30 compensation structure that PG&E proposes to apply upon Chapter 11  
31 emergence. This process required the Utility's Chief Executive Officer (CEO)  
32 and other senior operating leaders to develop metrics that would push PGE  
33 toward its most important safety, reliability, and affordability goals. The  
34 Compensation Committee also worked with Pay Governance, the independent



1 compensation consultant to the Board. Pay Governance is a recognized leader  
2 in executive compensation design and governance, utilizing nearly  
3 60 professionals across the United States to work with nearly 400 companies  
4 annually. Pay Governance provided overall advice, market data, market  
5 insights, and other guidance.

6 As a result of the foregoing process, PG&E has revamped its short-term and  
7 long-term executive compensation incentive programs (the STIP and the LTIP).  
8 The process has produced an executive compensation design that PG&E  
9 believes will incentivize behaviors that will produce outcomes that will not only  
10 meet AB 1054's requirements, but chart a new compensation design path for the  
11 industry. PG&E's revised STIP and LTIP largely consist of outcome-based,  
12 objectively measurable, risk reduction measures that promote customer and  
13 workforce welfare (especially public and employee safety) and financial stability.  
14 PG&E's revised STIP and LTIP use metrics that are informed by the risk drivers  
15 associated with PG&E's top risks as identified through its EORM program—a  
16 quantitative-based risk-reduction program that incorporates learning from the  
17 Commission's SMAP and RAMP. To PG&E's knowledge, this approach to  
18 executive compensation is unique in the industry.

19 The following describes the overall executive compensation structure  
20 (including foundational compensation, the STIP, and the LTIP) that will apply  
21 upon Chapter 11 emergence, as approved by the Compensation Committee  
22 and subject to the direction the Commission may provide in its decision in  
23 this matter.

## 24 **1. Foundational Compensation**

25 Foundational compensation for executives will consist of base salaries  
26 plus a handful of standard items such as health insurance benefits. Certain  
27 limited corporate perquisites such as parking and health club memberships,  
28 as described in PG&E's 2019 joint proxy statement, also will be provided.  
29 Such perquisites are typical in the industry, and align with shareholder and  
30 other stakeholder interests by serving a recruiting and retention purpose.

31 Foundational compensation is expected to comprise only about 36  
32 percent of overall executive compensation at target incentive compensation  
33 levels (ranging from 24 percent to 44 percent depending on the individual).  
34 Thus, a significant majority of overall compensation will be performance-

1 based compensation awarded through the STIP and the LTIP. This is  
2 consistent with best practices as described above.

## 3 **2. The Short-Term Incentive Plan**

4 The STIP will further the Utility's business objectives—especially  
5 customer and workforce welfare and safety—by promoting positive  
6 outcomes in line with those objectives, and making corresponding cash  
7 payments, on an annual basis (in contrast to the LTIP's longer-term focus).  
8 The STIP and the LTIP together are consistent with the best practice  
9 described above of using multiple timeframes for payment of incentive  
10 compensation. The STIP is expected to comprise about 21 percent of  
11 overall executive compensation at target levels (ranging from 18 percent to  
12 21 percent depending on the individual).

13 The STIP's performance metrics will be weighted 75 percent to  
14 customer and workforce welfare, and within that category, predominantly  
15 public and employee safety. The STIP's remaining metric will be weighted  
16 to financial stability (which depends in significant part on strong safety  
17 performance). The STIP's metrics will be almost entirely outcome-based as  
18 opposed to activity- or effort-based. The STIP's emphasis on customer and  
19 workforce welfare (especially public safety) tied to outcome-based metrics  
20 represents industry leadership: Based on our analysis of 19 other utilities,  
21 only 20 percent use customer/public safety metrics, and only one uses such  
22 a metric that is outcome-based.

23 PG&E firmly believes that safety is the most important element of its  
24 mission of delivering safe, reliable, affordable, and clean electricity and gas  
25 services to its customers. PG&E also believes that a focus on customer  
26 welfare across all aspects of its business complements its safety culture.  
27 For example, with an overly narrow or exclusive focus on safety, PSPS  
28 could be routinely implemented—and although that might ensure wildfire  
29 safety, it could cause hardships to PG&E's customers, especially its most  
30 vulnerable customers. PG&E's mission is and must be to provide service  
31 both reliably and safely. As such, PG&E's performance-based  
32 compensation structure aligns with customer welfare overall—including  
33 safety as its most critical element—but the structure does so without  
34 sacrificing reliability and affordability. PG&E's compensation structure, for



example, promotes reducing the incidence and impacts of PSPS, and increasing operational efficiency.<sup>14</sup>

The chart below sets forth the specific metrics applicable under the STIP, their respective weightings, and the extent to which the metrics are outcome-based as opposed to activity- or effort-based. Exhibit 1 hereto sets forth the “threshold,” “target,” and “maximum” metric achievement milestones for each of these metrics.

Category	Metric	Outcome-Based
<b>Customer Welfare</b> <b>(prioritizing public and employee safety)</b>  <b>75%</b>	Electric Operations (25%) <ul style="list-style-type: none"> <li>Reportable Fire Ignitions (10%)</li> <li>Electric Asset Failure (10%)</li> <li>Distribution Circuit Sectionalization (5%)</li> </ul>	Y Y
	Gas Operations (15%) <ul style="list-style-type: none"> <li>Large Overpressure Events (7.5%)</li> <li>Gas Dig-In Reduction (7.5%)</li> </ul>	Y Y
	Generation (10%) <ul style="list-style-type: none"> <li>Safe Dam Operating Capacity (5%)</li> <li>DCPP Reliability and Safety Indicator (5%)</li> </ul>	Y Y
	Workforce Safety (15%) <ul style="list-style-type: none"> <li>Days Away, Restricted and Transferred Rate</li> </ul>	Y
	Additional Public Safety and Reliability (10%) <ul style="list-style-type: none"> <li>Gas Operations Customer Response (3.33%)</li> <li>911 Emergency Response (3.33%)</li> <li>Customers Experiencing Multiple Interruptions (3.33%)</li> </ul>	Y
<b>Financial Stability</b>  <b>25%</b>	Core Earnings Per Share (25%)	Y

The following provides further information about these metrics:

<sup>14</sup> On January 24, 2020, the federal court in the criminal case arising from the San Bruno pipeline explosion issued an order directing the Utility to “show cause at a hearing on February 19 at 8 a.m. why it should not, going forward, restrict all bonuses and other incentives for supervisors and above *exclusively* to achieving the PG&E Wildfire Mitigation Plan and other safety goals.” (Further Order to Show Cause (re Bonuses) in *United States v. Pac. Gas. & Elec. Co.*, No. CR-14-00175-WHA, at 2 (N.D. Cal. Jan. 24, 2020) (emphasis added).) The foregoing portion of my testimony summarizes some of the reasons the Utility does not believe this would be appropriate.

1           Reportable Fire Ignitions: This public safety-related metric is designed  
2 to measure the results of PG&E's mitigation of wildfire risk, one of PG&E's  
3 key enterprise risks as identified through its EORM program (discussed  
4 above). The metric measures powerline-involved incidents that are annually  
5 reportable to the Commission pursuant to Decision 14-02-015 and that are  
6 within the Utility's High Fire Threat Districts. Specifically, the metric  
7 measures reportable fire incidents where: (i) ignition is associated with the  
8 Utility's transmission and/or distribution powerlines; (ii) something other than  
9 PG&E facilities burned; and (iii) the fire traveled more than one meter from  
10 the ignition point. The metric measures outcomes, not efforts. The metric's  
11 achievement milestones can be reviewed against data from several prior  
12 years and benchmarked against data reported to the Commission by the  
13 other California utilities.

14           Electric Asset Failure: This public safety- and reliability-related metric is  
15 designed to measure the results of PG&E's mitigation of the risks of wildfires  
16 and system failures. It measures the number of failure incidents (regardless  
17 of cause) of electric distribution, transmission, and substation underground  
18 and overhead assets. Specifically, the metric measures distribution asset or  
19 distribution substation asset failures in High Fire Threat Districts, and  
20 transmission asset or transmission substation asset failures system-wide,  
21 that result in sustained unplanned outages. The metric measures  
22 outcomes, not efforts. The metric's achievement milestones can be  
23 reviewed against historical company performance and benchmarked against  
24 external industry data.

25           Distribution Circuit Sectionalization: This public safety- and reliability-  
26 related metric will measure PG&E's mitigation of the scope and impacts of,  
27 and risks associated with, PSPS events. The metric pertains to the time it  
28 will take to complete planned installation/automation and operationalization  
29 of sectionalization devices, which reduce the scope and impacts of PSPS  
30 events by allowing power to remain on in areas where weather conditions do  
31 not warrant a PSPS but that nevertheless could experience an outage on  
32 account of system configurations. The metric's milestones for completing  
33 the planned work will be time-based, with a "target" completion date of

1 September 1, 2020—before the traditional height of the California wildfire  
2 season.

3 Large Overpressure Events: This public safety-related metric is  
4 designed to measure the results of PG&E's mitigation of the risk of a loss of  
5 gas containment, various types of which are among PG&E's key enterprise  
6 risks as identified through its EORM program. The metric tracks the number  
7 of large overpressure events (which occur when gas pressure exceeds the  
8 maximum allowable operating pressure) leading to loss of containment,  
9 damages to facilities, and/or reduced pipeline capacity or availability. The  
10 metric measures outcomes, not efforts. The metric's achievement  
11 milestones can be reviewed against PG&E's historical operating data.

12 Gas Dig-In Reduction: This public safety-related metric is designed to  
13 measure the results of PG&E's mitigation of the risk of a loss of containment  
14 from the Utility's underground gas transmission and distribution facilities.  
15 The Utility participates in a one-call "811" public service program  
16 administered by Underground Service Alert (USA). The Utility receives  
17 "tickets" from USA notifying the Utility of activities that could damage the  
18 Utility's underground pipelines. The metric tracks the number of gas dig-ins  
19 per 1000 USA tickets received for gas operations (subject to certain  
20 exclusions). The metric measures outcomes, not efforts. The metric's  
21 achievement milestones can be reviewed against PG&E's historical data  
22 and benchmarked against American Gas Association data.

23 Safe Dam Operating Capacity: This public safety-related metric is  
24 designed to measure the results of PG&E's mitigation of the risk of a large  
25 uncontrolled water release, which is one of PG&E's key enterprise risks as  
26 identified through its EORM program. The metric measures the operating  
27 capacity of the mechanical equipment that is used as the main control to  
28 reduce the risk of such a release. The metric measures outcomes, not  
29 efforts. The metric is, to PG&E's knowledge, a first-of-its-kind metric for the  
30 hydro industry. The metric's achievement milestones can be reviewed  
31 against historical operating data.

32 DCCP Reliability and Safety Indicator: This public safety-related metric  
33 is designed to measure the results of PG&E's reduction of the risk of a  
34 nuclear core damaging event with the potential for a radiological release at

1 the Diablo Canyon Power Plant, which is one of PG&E's key enterprise risks  
2 as identified through its EORM program. The metric represents a composite  
3 of 11 performance indicators for nuclear power generation developed by the  
4 nuclear industry and applied to all U.S. nuclear power plants. The metric  
5 measures outcomes, not efforts. Its achievement milestones can be  
6 benchmarked against others in the industry.

7 Days Away, Restricted, and Transferred Rate: This employee safety-  
8 related metric is designed to measure the results of PG&E's reduction of the  
9 risk of workforce injuries, and to promote improved performance in this key  
10 area. It measures the number of Occupational Safety and Health  
11 Administration (OSHA) recordable cases in the current year for employees  
12 that meet OSHA's recordkeeping requirements (excluding fatalities) and that  
13 have resulted in at least one lost workday or one day of job restriction or  
14 transfer. The metric measures outcomes, not efforts. Its achievement  
15 milestones can be benchmarked against data from other utilities.

16 Gas Operations Customer Response: This metric is designed to  
17 measure the results of PG&E's mitigation of public safety risks and its efforts  
18 to increase reliability of service, by promoting prompt responses to customer  
19 calls or notifications reporting a gas odor or gas emergency. It measures  
20 the number of minutes from the time the Utility is notified to the time Utility  
21 personnel or another qualified first responder arrives onsite to the location  
22 (subject to certain exclusions, such as multiple calls for the same event, or  
23 calls relating to a planned gas release). The metric is an industry standard,  
24 and achievement milestones can be benchmarked against other utilities.

25 911 Emergency Response: This public safety-related metric measures  
26 the percentage of time that PG&E personnel arrive onsite within 60 minutes  
27 after receiving a 911 call (with onsite defined as arriving at the premises  
28 where the 911 agency personnel are waiting). The metric is designed to  
29 promote prompt response times so as to accomplish two things: reducing  
30 public safety risks associated with a confirmed hazard, and freeing public  
31 agency resources to respond to other emergency situations. The metric is  
32 an industry standard, and achievement milestones can be benchmarked  
33 against other utilities.

**Customers Experiencing Multiple Interruptions:** This reliability-related metric is designed to measure the results of PG&E's efforts to promote system reliability. It measures the number of customers who experience five or more sustained service interruptions, whether planned or unplanned. The metric measures outcomes, not activities. The metric is an industry standard, and external benchmarks are available in connection with setting its achievement milestones.

Core Earnings Per Share: This metric promotes financial stability, consistent with AB 1054's imperative that executive compensation be structured not only "to promote safety as a priority and to ensure public safety," but also to "promote ... utility financial stability."<sup>15</sup> This metric also promotes safety, moreover, in that strong public safety performance is essential to financial stability (as evidenced by the current Chapter 11 proceedings and the substantial decline in the price of PG&E Corporation common stock since the 2017 and 2018 wildfires). The metric also promotes customer affordability, in that it aligns with cost efficiency. A metric tied to financial performance and stability is customary in the industry, and in my experience, expected by institutional shareholders.<sup>16</sup> The metric's milestones will be set after equity issuances in connection with Chapter 11 emergence are determined.

\* \* \*

Two qualifying principles will overlay payment of STIP awards as calculated based on achievement of “threshold,” “target,” or “maximum”

**15** Pub. Util. Code § 8389(e)(4).

**16** See, e.g., California Public Employees' Retirement System, *Governance and Sustainability Principles*, at 23 (Sept. 2019) ("Compensation programs should symmetrically align the interests of the companies' executives and employees with the providers of capital, that is, both sides should participate in good and bad times. Incentive pay should be tied to shareowner experience."); California State Teachers' Retirement System, *Corporate Governance Principles*, at 9-10 (Nov. 2018) ("The [compensation] philosophy should promote an alignment of interests between management and shareholders. The company's compensation philosophy should intend to create long-term value ...").

1 milestones on the foregoing metrics.<sup>17</sup> First, there will be an individual  
2 modifier for each executive that can result in adjustment of the executive's  
3 payout depending on how the executive performs relative to individually  
4 conveyed annual performance goals. The individual modifier could result in  
5 an executive's award being reduced to as low as 75 percent or increased to  
6 as high as 125 percent of the amount otherwise payable.

7 Second, the PG&E Corporation Compensation Committee and the  
8 Utility's Board of Directors at all times will retain complete discretion to  
9 reduce or eliminate STIP awards for any particular executive or more  
10 broadly if, in the totality of the circumstances, the Committee or the Board  
11 sees fit to do so. Such circumstances could include, for example, a  
12 catastrophic wildfire, loss of gas containment, or generating or nuclear  
13 event, or a failure of the Utility to maintain its safety certification pursuant to  
14 § 8389(e). The Committee and the Board exercised their discretion to  
15 reduce 2018 STIP payouts to zero in light of the devastating 2018 Camp  
16 Fire, the hardships incurred by communities, and the Utility's financial  
17 circumstances including the need to seek relief under Chapter 11.

### 18 **3. The Long-Term Incentive Plan**

19 The LTIP is designed to further PG&E's long-term objectives—  
20 especially customer welfare and safety—by aligning compensation with  
21 those objectives and making corresponding payouts over the longer term.  
22 LTIP awards are all equity-based, and therefore inherently align  
23 compensation with strong company performance. LTIP awards for 2020  
24 post-emergence will consist entirely of performance shares that will be  
25 awarded only upon achievement of the objective performance metrics  
26 described below, with a proviso that such awards must be held for at least  
27 three years from the grant date.<sup>18</sup> Thus, LTIP performance share awards  
28 will be paid based on performance, and in addition, their value over time will  
29 depend on PG&E's stock performance at least three years into the future.

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17 PG&E ensures and will continue to ensure that the underlying data used to evaluate achievement of incentive compensation milestones is reliable. PG&E historically has used its internal audit unit to confirm such reliability. PG&E is reviewing external verification solutions to buttress the internal audit verification process.

18 The CEO's compensation structure currently also includes stock options.

LTIP awards will not include restricted stock units that vest based on length of service, notwithstanding the retention purpose such awards can serve; PG&E has elected to focus all of its long term compensation on achievement of safety and other important objectives. LTIP awards are expected to constitute about 44 percent of overall executive compensation at target levels (ranging from 36 percent to 55 percent depending on the individual).

The chart below sets forth the specific metrics that will apply upon Chapter 11 emergence, their respective weightings, and the extent to which the metrics are outcome-based as opposed to activity- or effort-based. Exhibit 2 hereto sets forth the “threshold,” “target,” and “maximum” metric achievement milestones for each of these metrics.

Category	Metric	Outcome-Based
Public Safety and Reliability 50%	System Hardening (25%)	
	Substation Enablement (25%)	
Customer Experience 50%	Customer Experience Index <ul style="list-style-type: none"><li>Customer Satisfaction Score (25%)</li><li>PSPS Notification Accuracy (25%)</li></ul>	Y Y

To take into account the long term financial health and stability of PG&E, the LTIP score determined by the metrics above will be multiplied by a Total Shareholder Return (TSR) modifier, which will increase or reduce the total payout to LTIP participants based on the relative performance of PG&E Corporation stock over time (described in more detail below).

The following provides further information about the metrics:

System Hardening: This public safety- and reliability-related metric aligns with mitigation of the risk of catastrophic wildfires. The metric measures rebuilding of overhead circuitry to current hardening design standards, targeted undergrounding, or elimination of overhead circuitry, in High Fire Threat Districts. The metric’s achievement milestones, which will



1 be measured in completed circuit miles, can be benchmarked against data  
2 from other California utilities.<sup>19</sup>

3 PG&E's risk analysis indicates that, while the risk of wildfires is inherent  
4 in delivery of electricity in California and can never be entirely eliminated,  
5 completing just 20 percent of PG&E's planned system hardening can reduce  
6 the risk of a catastrophic wildfire by up to 90 percent. PG&E therefore  
7 believes it is important to align compensation with progress toward  
8 completion of this critical work.

9 Substation Enablement: This public safety- and reliability-related metric  
10 promotes efforts to reduce the scope and customer impacts of PSPS. It  
11 relates to a list of 64 substations that were identified following the October  
12 2019 PSPS events as able to reduce the number of customers impacted by  
13 a transmission-level PSPS event. The metric measures the number of such  
14 substations that are successfully rendered energizable during such events,  
15 whether through microgrid temporary or permanent solutions, or other to-be-  
16 identified solutions.

17 Customer Experience Index: This customer satisfaction-related metric  
18 aligns with strong customer service, especially in connection with PSPS  
19 events. Its two equally weighted components will measure progress toward  
20 two objectives. First, the "customer satisfaction score" will measure  
21 improvement in customer satisfaction in 2022 over current satisfaction levels  
22 based on a quarterly survey conducted by a third party that asks customers  
23 a single overall question: "How would you rate the products and/or services  
24 offered by PG&E?" Second, the "PSPS notification accuracy" component  
25 will measure the percentage of PSPS-affected customers who receive  
26 notifications at least 12 hours prior to a PSPS outage. The "PSPS  
27 notification accuracy" component derives from the Commission's proposed  
28 Utility Wildfire Mitigation Maturity Model in R.18-10-007, and at "threshold,"  
29 "target," and "maximum" metric achievement milestones will correspond to

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19 Certain ongoing system hardening work in Butte County will not count toward achievement of the metrics.



1 Maturity Levels 1, 2, and 3, respectively, in such model.<sup>20</sup> Both  
2 components of the “customer experience” metric measure outcomes, not  
3 efforts. Both components can be compared against historical data.

4 \* \* \*

5 Two principles will overlay payment of LTIP awards as calculated based  
6 on achievement of “threshold,” “target,” or “maximum” milestones on the  
7 foregoing metrics.

8 First, the TSR modifier will result in an adjustment of LTIP payments by  
9 multiplying the LTIP score by a low of 75 percent to a high of 125 percent  
10 depending on PG&E’s relative TSR. Relative TSR is a measure of total  
11 share performance (price appreciation or depreciation, plus dividends  
12 received, if any), relative to the same measure for a comparator group of  
13 peer companies (a comparator group that the Compensation Committee  
14 reviews annually to ensure its appropriateness). TSR is commonly used as  
15 a metric in long-term compensation plans—including at peer utilities in  
16 California and elsewhere—and is typically heavily weighted in such plans.  
17 Also, TSR or a comparable financial performance metric is, in my  
18 experience, expected by institutional shareholders in order to help align  
19 executive incentives with long-term shareholder welfare.

20 Because the LTIP will use TSR only as a *modifier* after LTIP awards are  
21 initially calculated, TSR will receive less emphasis in the calculation of final  
22 awards than it would if, as is common at other companies, it were a metric in  
23 its own right with a significant weighting. For example, under the LTIP, if  
24 “threshold” milestones for the Public Safety and Reliability metrics and the  
25 Customer Experience metric are not met, executives will not be entitled to  
26 an LTIP payout even if PG&E Corporation’s stock performs well compared  
27 to the stock of peer companies. If, however, the LTIP used TSR as an  
28 independent metric, then executives could be entitled to an LTIP payout  
29 notwithstanding that the Utility failed to meet public safety, reliability, and  
30 customer welfare goals. Because the LTIP uses TSR only as a modifier, the  
31 sole effect of TSR will be to increase or decrease the LTIP score that is

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<sup>20</sup> See Attachment 2 (Utility Wildfire Mitigation Maturity Model) to ALJ’s Ruling on Wildfire Mitigation Plan Templates and Related Material and Allowing Comment, at 38, R.18-10-007 (Dec. 16, 2019).

otherwise calculated, thereby keeping the executive's compensation primarily tied to public safety, reliability, and customer welfare.

Second, the Board of Directors or the Compensation Committee may at any time suspend, terminate, modify, or amend the LTIP in any respect, and may cancel or annul any grant of an award provided that such cancellation or annulment does not, without the employee's consent, adversely affect the employee's rights under incentive awards previously granted. The Board and the Compensation Committee thus retain considerable discretion to reduce or eliminate LTIP awards if doing so is warranted in the totality of the circumstances.

**E. The Ways in Which the Utility's Executive Compensation Structure Addresses AB 1054's Requirements**

AB 1054, as codified in § 8389(e), contains two pertinent subsections containing two sets of requirements. First, subsection (e)(4) requires a utility to show that it has "established an executive compensation structure" meeting various criteria. Specifically:

The electrical corporation [must show that it] has established an executive incentive compensation structure approved by the division and structured to promote safety as a priority and to ensure public safety and utility financial stability with performance metrics, including incentive compensation based on meeting performance metrics that are measurable and enforceable, for all executive officers, as defined in Section 451.5. This may include tying 100 percent of incentive compensation to safety performance and denying all incentive compensation in the event the electrical corporation causes a catastrophic wildfire that results in one or more fatalities.

Second, subsection (e)(6) requires the utility to show that it has "established a compensation structure for any new or amended contracts for executive officers" that is based on certain principles. Specifically:

The electrical corporation [must show that it] has established a compensation structure for any new or amended contracts for executive officers, as defined in Section 451.5, that is based on the following principles:

- (i) (I) Strict limits on guaranteed cash compensation, with the primary portion of the executive officers' compensation based on achievement of objective performance metrics[; and] (II) [n]o guaranteed monetary incentives in the compensation structure.
- (ii) It satisfies the compensation principles identified in paragraph (4).

- (iii) A long-term structure that provides a significant portion of compensation, which may take the form of grants of the electrical corporation's stock, based on the electrical corporation's long-term performance and value. This compensation shall be held or deferred for a period of at least three years.
- (iv) Minimization or elimination of indirect or ancillary compensation that is not aligned with shareholder and taxpayer interest in the electrical corporation.

I discuss below how these statutory requirements are addressed by the Utility's post-emergence executive compensation structure.

#### **1. The Criteria of § 8389(e)(4)**

Covered Officers: Section 8389(e)(4) requires the requisite compensation structure to apply to "all executive officers, as defined in Section 451.5." The definition of "officers" applied by PG&E is based in part on a functional analysis of individual duties, which may change over time. As of the time of this testimony, the structure described above will apply to all of the Utility's officers who qualify as "executive officers" under 17 C.F.R. 240.3b-7 (plus two officers listed in § 451.5 who are not listed in § 240.3b-7, namely, the Secretary and Treasurer).<sup>21</sup>

Safety Incentives: Section 8389(e)(4) requires the compensation to be "structured to promote safety as a priority and to ensure public safety." Both the STIP and the LTIP will do this. The STIP's metrics will be heavily weighted toward customer and workforce welfare, placing a priority on public safety. The LTIP's metrics similarly will be weighted primarily to promote wildfire- and PSPS-related safety.

Additionally, *all* LTIP awards incentivize customer and workforce welfare over the long term because their value will depend over time on how PG&E Corporation common stock performs. The stock's relative performance depends primarily on PG&E's performance, and PG&E's performance depends heavily on public safety performance. If safety performance is poor—for example, if there is a catastrophic public safety incident—the effect on the stock can be devastating, as evidenced by the stock losing

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<sup>21</sup> I understand that the Commission has construed the term "officer" as used in Pub. Util. Code § 706 to mean the officers encompassed by 17 C.F.R. 240.3b-7. See Resolution E-4963 at 8 (Dec. 13, 2018).

1 significant value since the 2017 northern California wildfires. Inasmuch as  
2 performance-based LTIP awards must be held for at least three years after  
3 grant, all such awards necessarily promote safety over the long term.

4 Financial Stability Incentives: Section 8389(e)(4) also requires the  
5 compensation to be “structured to promote ... utility financial stability.” The  
6 STIP and the LTIP will do this. As noted, the STIP and the LTIP collectively  
7 will promote customer, public, and workforce safety, and thus contribute to  
8 financial stability. In addition, the STIP will promote financial stability directly  
9 via the core earnings per share metric, and the LTIP’s TSR modifier likewise  
10 will promote financial stability.

11 Objective Performance Metrics: Section 8389(e)(4) requires the  
12 compensation structure to use “performance metrics[] [and to] includ[e]  
13 incentive compensation based on meeting performance metrics that are  
14 measurable and enforceable.” As described above and in the exhibits  
15 hereto, both the STIP and the LTIP will use performance metrics that are  
16 objectively defined, measurable, enforceable, and auditable. The metrics  
17 will be almost entirely outcome-based.

18 Tying 100 percent of Incentive Compensation to Safety Performance:  
19 Section 8389(e)(4) provides in permissive, not mandatory, language that the  
20 compensation structure “may include tying 100 percent of incentive  
21 compensation to safety performance and denying all incentive  
22 compensation in the event the electrical corporation causes a catastrophic  
23 wildfire that results in one or more fatalities.” As discussed above, PG&E  
24 believes that tying 100 percent of incentive compensation to safety metrics  
25 would not adequately align with PG&E’s *overall* mission of providing safe,  
26 reliable, affordable, and clean energy to its customers. Though PG&E  
27 unequivocally views safety as the most important aspect of its mission, the  
28 other aspects also are important and should be promoted.

29 That said, as noted, the Board of Directors and the Compensation  
30 Committee have discretion to reduce or eliminate STIP awards for any  
31 reason (e.g., in the event of a catastrophic public safety event), and they  
32 did so for 2018. Similarly, the Board and the Compensation Committee  
33 may at any time suspend, terminate, modify, or amend the LTIP in any  
34 respect, and may cancel or annul any grant of LTIP awards provided that

1 such cancellation or annulment does not, without the employee's  
2 consent, adversely affect the employee's rights under incentive awards  
3 previously granted.

## 4 **2. The Criteria of § 8389(e)(6)**

5 Section 8389(e)(6) requires the "compensation structure [applicable to]  
6 any new or amended contracts for executive officers" to meet certain  
7 criteria. I understand that there is a legal question over whether this applies  
8 to general compensation programs such as the Utility's programs described  
9 above, or instead only applies to written employment contracts that set out  
10 all the material terms and conditions of employment—which the Utility  
11 generally does not have with its executives.<sup>22</sup> Assuming for present  
12 purposes only that subsection (e)(6) applies to the Utility's compensation  
13 structure described above, I make the following points.

14 Cash/Incentive Compensation Mix: Section 8389(e)(6)(i)(I) provides  
15 that the compensation structure must place "[s]trict limits on guaranteed  
16 cash compensation, with the primary portion of the executive officers'  
17 compensation based on achievement of objective performance metrics."  
18 The compensation structure applicable upon Chapter 11 emergence will do  
19 this. The only guaranteed cash compensation will be base salary (plus a  
20 modest cash stipend in lieu of broader perquisites), which is and will remain  
21 a minority of total compensation. Also, STIP and LTIP incentive  
22 compensation that is based on objective performance metrics will comprise  
23 greater than 50 percent of total executive compensation at target levels.

24 No Guaranteed Monetary Incentives: Section 8389(e)(6)(i)(I) provides  
25 that there must be "[n]o guaranteed monetary incentives in the  
26 compensation structure." STIP and LTIP awards are entirely "at risk," and  
27 thus, executives' only guaranteed monetary payments will be their  
28 foundational compensation. Further, PG&E generally does not have formal  
29 employment contracts with its executives, and thus, for example, there is no  
30 contractual entitlement to continued employment, to a salary for a particular

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<sup>22</sup> LTIP awards are made through written award contracts, but such contracts do not set out all material terms and conditions of employment.

1 term following termination of employment, or to a pay raise from one year to  
2 the next.

3 Compliance With § 8389(e): Section 8389(e)(6)(ii) provides that the  
4 compensation structure should “satisf[y] the compensation principles  
5 identified in paragraph (4).” The compensation structure applicable upon  
6 Chapter 11 emergence will do this, as outlined above.

7 Equity Awards: Section 8389(e)(6)(iii) provides that the compensation  
8 structure should include “[a] long-term structure that provides a significant  
9 portion of compensation, which may take the form of grants of the electrical  
10 corporation’s stock, based on the electrical corporation’s long-term  
11 performance and value,” with such “compensation ... held or deferred for a  
12 period of at least three years.” The LTIP will accomplish this because: (i) all  
13 of its awards will consist of equity awards; (ii) the Utility intends to ensure  
14 that these equity awards comprise about 44 percent of total executive  
15 compensation at target levels (ranging from 36 percent to 55 percent  
16 depending on the individual); and (iii) the Utility will require that  
17 performance-based equity awards be held for at least three years from  
18 grant.

19 Minimization of Ancillary Compensation: Section 8389(e)(6)(iv) requires  
20 “[m]inimization or elimination of indirect or ancillary compensation that is not  
21 aligned with shareholder and taxpayer interest in the electrical corporation.”  
22 As noted, although executives receive corporate perquisites such as parking  
23 and health club memberships, these are de minimis, are typical in the  
24 industry, and are aligned with shareholder and other stakeholder interests  
25 by serving a recruiting and retention purpose.

26 In sum, I believe, and I understand that the Compensation Committee  
27 believes, that the Utility’s post-emergence executive compensation structure  
28 meets the requirements of AB 1054.

**PACIFIC GAS AND ELECTRIC COMPANY**  
**CHAPTER 8**  
**GOVERNANCE STRUCTURE: CRIMINAL PROBATION**  
**(SCOPING MEMO SECTION 3.2)**

PACIFIC GAS AND ELECTRIC COMPANY  
CHAPTER 8  
GOVERNANCE STRUCTURE: CRIMINAL PROBATION (SCOPING MEMO  
SECTION 3.2)

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1                                   **PACIFIC GAS AND ELECTRIC COMPANY**  
2   **CHAPTER 8**  
3                   **GOVERNANCE STRUCTURE: CRIMINAL PROBATION (SCOPING**  
4   **MEMO SECTION 3.2)**

5   **A. Introduction**

6               My name is Julie Kane. I am Senior Vice President (SVP), Chief Ethics and  
7               Compliance Officer, and Deputy General Counsel for PG&E Corporation and  
8               Pacific Gas and Electric Company (the Company or the Utility).

9               I understand that Assembly Bill (AB) 1054, as codified in Public Utilities  
10              Code § 3292(b)(1)(C), requires the California Public Utilities Commission (CPUC  
11              or Commission) to consider “the reorganization plan and other documents  
12              resolving [the Utility’s] insolvency proceeding, including [whether the Utility’s]  
13              resulting governance structure [is] acceptable” in light of, among other factors,  
14              the Utility’s “criminal probation.” The Assigned Commissioner’s Scoping Memo  
15              in Investigation (I.) 19-09-016 directs the parties to “address this issue, including  
16              how the criminal probation may relate to or impact the resolution of other  
17              issues.”<sup>1</sup> My testimony is designed to assist the Commission as it considers  
18              these issues.

19             My testimony below has three parts. First, I provide an overview of the  
20             conditions of probation and the structure of the independent third-party  
21             monitorship implemented in connection with that probation. Second, I describe  
22             the extensive actions the Utility has taken to comply with the probation and to  
23             cooperate with the monitorship. Third, I discuss how the probation and  
24             monitorship may relate to or impact the resolution of issues in this proceeding.

25   **B. Executive Summary**

26             My testimony addresses the following key points:

- 27             1) In 2017, the Utility was sentenced to pay monetary penalties and to a  
28             5-year criminal probation, which includes implementation of an independent  
29             monitorship.

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1   Assigned Commissioner’s Scoping Memo and Ruling, I.19-09-016, at 5 (Nov. 14, 2019).

- 1        2) The Utility has undertaken extensive efforts to fully comply with all aspects  
2        of the Court's Judgment, and those efforts are integrated with the Utility's  
3        governance at senior levels.
- 4        3) For example, the Utility has paid its monetary penalties, has satisfied its  
5        community service obligations, has reorganized and rebuilt its companywide  
6        Compliance and Ethics Program, and has fully cooperated with the  
7        Monitor's numerous oversight activities, which have included more than  
8        1,000 meetings and site visits and thousands of requests for information.
- 9        4) PG&E's governance structure is and will remain consistent and harmonious  
10       with the terms of its probation. PG&E's proposed Plan of Reorganization  
11       does not entail changes to its corporate governance or structure of a sort  
12       that could implicate the probation, and PG&E anticipates that the  
13       reorganized Utility will continue with its extensive probation compliance  
14       efforts.
- 15       5) To ensure compliance with the above-referenced provisions of AB 1054,  
16       PG&E will incorporate into its Plan of Reorganization or related documents  
17       any direction the Commission provides in its decision in this proceeding with  
18       regard to PG&E's governance as it relates to the Utility's criminal probation.  
19       If the Commission directs PG&E to make significant changes to its corporate  
20       governance or structure, such changes could potentially impact certain  
21       conditions of probation.

### 22    **C. Witness Background**

23        I joined PG&E in May 2015 as part of its commitment to achieving a best-in-  
24        class ethics and compliance program. As Chief Ethics and Compliance Officer, I  
25        oversee and monitor the companywide Compliance and Ethics Program and  
26        lead ethics and compliance training and culture-building efforts. I also support  
27        PG&E's efforts with respect to the federal monitorship and probation.

28        I report directly to the Chief Executive Officer (CEO) and President of PG&E  
29        Corporation, and also functionally report to the Compliance and Public Policy  
30        Committee of the PG&E Corporation Board. I submit formal annual reports to  
31        the full Boards, including regarding the Utility's probation and the Monitor. I also  
32        regularly attend and report at Board and Board committee meetings on a variety  
33        of matters.

1 Before joining PG&E, I worked at Avon Products, Inc., as Vice President  
2 (VP) and General Counsel of Avon North America and Corporate Legal  
3 Functions. Prior to my role with Avon, I held a number of senior roles with  
4 Novartis Corporation and its affiliates over a 25-year period, including VP, Ethics  
5 and Compliance for Novartis Corporation; VP, Ethics and Compliance and  
6 Corporate Citizenship for Novartis Pharmaceuticals Corporation; and VP,  
7 Health, Safety and Environment and Chief Environmental Counsel for Novartis  
8 Corporation.

9 I earned an undergraduate degree in political science from Williams College  
10 and a J.D. from the University of San Francisco School of Law. I am a member  
11 of the State Bar of California.

## 12 **D. Overview of Probation and Monitorship**

### 13 **1. Judgment**

14 The 2010 San Bruno pipeline explosion was a terrible tragedy.  
15 Immediately afterwards, PG&E accepted responsibility for what happened  
16 and took significant action to help those impacted and to make its pipeline  
17 system safer. For example, the Utility stipulated to liability in the civil cases  
18 and granted millions of dollars to the San Bruno community with no  
19 conditions. PG&E also undertook a massive program to update one of the  
20 largest pipeline systems in the country. Between 2010 and January 2017,  
21 the Utility spent more than \$2.1 billion on gas pipeline safety improvements.  
22 Through its Pipeline Safety Enhancement Plan, the Utility strength tested or  
23 verified the pipeline strength of hundreds of miles of pipeline, replaced or  
24 upgraded hundreds of other miles to accommodate in-line inspection tools,  
25 and reviewed, scanned, and uploaded more than 3.8 million paper  
26 documents into electronic form.

27 In 2016, a jury found the Utility guilty of five federal felony counts of  
28 violating United States (U.S.) Pipeline Safety Act regulations related to  
29 integrity management and one federal felony count of obstructing an agency  
30 proceeding. In January 2017, the Utility was sentenced by the federal court

1 to pay monetary penalties consisting of a \$3,000,000 fine and a  
2 \$2,400 assessment, and to a 5-year term of probation.<sup>2</sup>

3 The Court's Judgment orders seven standard conditions of probation,  
4 summarized below:

- 5 1) Within 30 days of the date of the Judgment, the Utility must designate  
6 an official to act as its representative and primary contact with the  
7 probation officer;
- 8 2) The Utility must answer the probation officer's inquiries truthfully and  
9 must follow the probation officer's instructions;
- 10 3) The Utility must notify the probation officer 10 days before making any  
11 change to its principle business or mailing address;
- 12 4) The Utility must permit the probation officer to visit the Utility at any of its  
13 operating business sites;
- 14 5) The Utility must notify the probation officer within 72 hours of any  
15 criminal prosecution, major civil litigation, or administrative proceeding  
16 against the Utility;
- 17 6) The Utility must "not dissolve, change its name, or change the name  
18 under which it does business unless this judgment and all criminal  
19 monetary penalties imposed by this court are either fully satisfied or are  
20 equally enforceable against the defendant's successors or assignees";  
21 and
- 22 7) The Utility must "not waste, nor without permission of the probation  
23 officer, sell, assign, or transfer its assets."<sup>3</sup>

24 The Judgment also orders nine special conditions of probation,  
25 summarized below:

- 26 1) The Utility must not commit another federal, state, or local crime while  
27 on probation;
- 28 2) The Utility must comply with the separately entered order concerning a  
29 third-party monitor, as described in more detail below;
- 30 3) The Utility must develop and submit to the Court an effective compliance  
31 and ethics program consistent with § 8B2.1 of the U.S. Sentencing

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<sup>2</sup> See *United States v. Pacific Gas & Electric Co.*, No. 3:14-CR-00175, Dkt. No. 922, Judgment in a Criminal Case (N.D. Cal. Jan. 31, 2017).

<sup>3</sup> *Id.* at 2.

Guidelines, including a schedule for implementation, within 6 months of the date of the Judgment, and must revise the program and file updates with the Court whenever deemed appropriate by the monitor;

- 4) Within 60 days of the date of the Judgment, the Utility must place a full-page advertisement in the Wall Street Journal and San Francisco Chronicle publicizing the nature of the offenses, the convictions, the nature of the sentence, and the steps that will be taken to prevent the recurrence of similar offenses;
- 5) For 3 months, and to the greatest extent possible replicating the same channels and air times that the Utility used before and/or during trial in 2016, the Utility must air television commercials that publicize the nature of the offenses, the convictions, the nature of the sentence, and the steps that will be taken to prevent the recurrence of similar offenses, in accordance with the Court's instructions;
- 6) The Utility must submit to "(A) a reasonable number of regular or unannounced examinations of its books and records at appropriate business premises by the probation officer or experts engaged by the Court," and "(B) interrogation of knowledgeable individuals within the organization," and must pay compensation to and costs of any experts engaged by the Court;
- 7) The Utility must perform 10,000 hours of preapproved community service with a focus on the San Bruno area, 2,000 of which must be completed by high-level personnel;
- 8) The Utility must "notify the probation officer and monitor immediately upon learning of: (A) any material adverse change in its business or financial condition or prospects; or (B) the commencement of any bankruptcy proceeding, major civil litigation, criminal prosecution, or administrative proceeding against the organization, or any investigation or formal inquiry by governmental authorities regarding the organization"; and

1           9) The Utility must pay the \$3,000,000 fine and \$2,400 assessment in a  
2           lump sum within 60 days of the date of the Judgment and must not pass  
3           the cost on to its customers.<sup>4</sup>

## 4       **2. Order Establishing Independent Monitorship**

5           The Court entered a separate order on January 26, 2017 establishing  
6           the third-party monitorship.<sup>5</sup> The monitorship's stated purpose is "to help  
7           ensure PG&E takes reasonable and appropriate steps to maintain the safety  
8           of the gas transmission pipeline system, performs appropriate assessment  
9           testing on gas transmission pipelines, and maintains an effective ethics and  
10          compliance program and safety related incentive program."<sup>6</sup> In recognition  
11          of the Commission's primary jurisdiction over the Utility, the Order  
12          specifically provides that the Monitor does not have authority to supplant the  
13          Commission's authority over gas transmission operations or pipeline safety,  
14          and does not have authority to require the Utility to take action contrary to  
15          the directives of its regulators.<sup>7</sup>

16          The Order also enumerates fifteen areas of focus for the Monitor's  
17          review, including fourteen areas relating to gas operations (including  
18          pipeline integrity management) and one area on policies and procedures  
19          "relating to the handling of safety citations and timely reporting of self-  
20          identified potential violations."<sup>8</sup> The scope of the monitorship also covers  
21          review of any gas transmission pipeline safety issues that may arise during  
22          the monitorship.<sup>9</sup>

23          The monitorship has a term of five years unless it is terminated early  
24          under the provisions of the Order, and the Utility is responsible for paying  
25          the reasonable compensation and expenses of the Monitor and his team.<sup>10</sup>  
26          The Monitor has robust powers to carry out his duties, including to request

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4       *Id.* at 3.

5       *Id.* at 6-18.

6       *Id.* at 6.

7       *Id.* at 7.

8       *Id.* at 7-9.

9       *Id.* at 9.

10      *Id.* at 10-11.

1 access to non-privileged information, documents, records, facilities and/or  
2 employees, and to take any other reasonable steps the Monitor may deem  
3 necessary to be fully informed.<sup>11</sup>

4 The Monitor is required to issue periodic reports setting forth his ongoing  
5 assessment and recommendations and to report any potential violations of  
6 criminal law to the Probation Office, the U.S. Attorney's Office, and the  
7 Utility.<sup>12</sup> The Monitor also is required to report any non-compliances with  
8 the gas transmission pipeline safety regulations to PG&E's SVP, Gas  
9 Operations, and to me.<sup>13</sup>

10 The Order establishing the monitorship includes a successorship  
11 provision, which provides that "[i]n the event of a sale of the gas pipeline  
12 transmission system, assignment or transfer of all of PG&E's stock or assets  
13 to an unaffiliated third party pursuant to an arm's-length transaction, the  
14 terms of this Order shall continue to apply to PG&E and to any successor  
15 of PG&E."<sup>14</sup>

### 16 **3. Additions and Amendments to Conditions of Probation**

17 Following the October 2017 North Bay wildfires, the Monitor, the  
18 U.S. Attorney's Office, and the Utility agreed that the Monitor team also  
19 would evaluate certain aspects of the Utility's electric distribution operations,  
20 including vegetation management, electric pole and equipment maintenance  
21 and inspection, and emergency response and restoration. In April 2019, the  
22 Court imposed the following additional conditions of probation in light of the  
23 2017 and 2018 wildfires:

- 24 1) The Utility must fully comply with all applicable vegetation management  
25 and clearance-related laws;
- 26 2) The Utility must fully comply with the targets and metrics set forth in the  
27 Utility's CPUC-approved 2019 Wildfire Safety Plan (also known as  
28 "Wildfire Mitigation Plan" or "Wildfire Safety Improvement Plan"),  
29 including with respect to enhanced vegetation management;

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11 *Id.* at 11-12.

12 *Id.*

13 *Id.* at 16-17.

14 *Id.* at 17.



- 3) The Monitor will assess the Utility's wildfire mitigation and safety work, including through regular vegetation management and equipment inspections and field interviews;
- 4) The Utility must maintain traceable, verifiable, accurate, and complete vegetation management records, must report monthly to the Monitor on its vegetation management status and progress, and must make all related records available for inspection at the Monitor's request; and
- 5) The Utility must allocate sufficient resources, financial and personnel, including contractors and employees, to achieve wildfire mitigation, and may not issue any dividends until it is in compliance with all applicable vegetation management requirements.<sup>15</sup>

On January 30, 2019, the Court found that the Utility violated the probation by failing to notify the Probation Office of a settlement that PG&E had entered into with the Butte County District Attorney's Office in connection with the 2017 Honey Fire. In response, PG&E took several actions to address the Probation Office's concerns and ensure ongoing compliance, including meeting with the Probation Officer in person to discuss her expectations, inviting the Probation Officer to join PG&E's weekly phone calls with the Monitor, and increasing email communications with the Probation Office. In May 2019, the Court held a sentencing hearing regarding the probation violation and imposed the following additional conditions of probation:

1. By no later than July 15, 2019, the Utility's Board and senior leaders, the Monitor, and the Probation Office must tour the Paradise and San Bruno communities and speak with victims and other stakeholders; and
2. A PG&E Board committee must assume responsibility for tracking progress against the Utility's CPUC-approved Wildfire Safety Plan and the new terms of probation imposed in April 2019, and must report to the Board at least quarterly on progress and how the Utility will address any shortfalls.<sup>16</sup>

The Utility has been complying with these conditions, as discussed below.

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<sup>15</sup> *Id.*, Dkt. No. 1040, Order Adopting New Conditions of Probation (April 3, 2019).

<sup>16</sup> *Id.*, Dkt. No. 1071, Order Adopting New Conditions of Probation (May 14, 2019).



1 On November 27, 2019, the Court issued an order amending special  
2 condition of probation Number 7 relating to community service. Specifically,  
3 the Court granted the city of San Bruno's request that PG&E, subject to the  
4 necessary approvals related to its bankruptcy, contribute \$3,000,000 in  
5 funding toward a wildfire mitigation project in San Bruno in lieu of completing  
6 the remaining required hours of community service.<sup>17</sup> The Order provides  
7 that once the funding has been provided, special condition Number 7 will be  
8 deemed complete and removed as a condition of probation.<sup>18</sup>

9 As discussed below, the Court has scheduled a hearing on February 19,  
10 2020 to consider whether further conditions, relating to hiring and training  
11 tree trimming crews and incentive compensation, should be imposed.

## 12 **E. The Utility's Compliance with Probation and Monitorship**

13 PG&E is deeply committed to continually improving its performance and  
14 culture with respect to safety, ethics, and compliance. In 2017, PG&E expanded  
15 the scope of its Compliance and Ethics Department to create a new corporate  
16 compliance function to lead and manage full and timely compliance with the  
17 terms of probation and the monitorship. As explained below, PG&E has been  
18 fully and extensively cooperating with the monitorship and has been working to  
19 comply with all the conditions of probation. In addition, as discussed in  
20 Chapters 5 and 6, PG&E has taken numerous steps beyond its explicit legal  
21 requirements to improve its safety operations and culture.

### 22 **1. Independent Monitorship**

23 The Court appointed Mark Filip as the Utility's independent Monitor in  
24 2017. Mr. Filip is a former U.S. Deputy Attorney General and former acting  
25 U.S. Attorney General, a retired federal judge, and currently a partner at the  
26 law firm of Kirkland and Ellis LLP. Mr. Filip is supported by dozens of other  
27 attorneys from his law firm and more than a dozen subject matter experts in  
28 varied areas such as gas operations, safety, compliance and ethics, electric  
29 operations, and finance.

30 The Monitor has been heavily engaged since the beginning of the  
31 monitorship, and PG&E has facilitated the Monitor's extensive oversight

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<sup>17</sup> *Id.*, Dkt. No. 1118, Order Adopting Amending Conditions of Probation (Nov. 27, 2019).

<sup>18</sup> *Id.*

1 activities. For example, the Monitor and his team: (i) have conducted field  
2 interviews and meetings with hundreds of employees across PG&E's  
3 service territory, many of whom have been interviewed more than once;  
4 (ii) have conducted over one thousand meetings and site visits; (iii) have  
5 visited operational facilities including compressor and processing stations,  
6 storage fields, training facilities, crew yards, and customer service centers;  
7 (iv) have conducted panel discussions with dozens of employees, which  
8 have focused primarily on PG&E's enterprise compliance and ethics, safety,  
9 and culture, as well as the effects of the Company's bankruptcy in those  
10 areas; (v) have maintained regular communications with PG&E, including  
11 participating in standing weekly calls to discuss emerging issues and  
12 general updates; (vi) have generated thousands of requests for information;  
13 and (vii) established a Monitor Helpline for PG&E employees to raise  
14 concerns directly to the Monitor team, which PG&E continuously promotes  
15 to its workforce. PG&E has given the Monitor full access to non-privileged  
16 information, documents, records, facilities and/or employees as needed to  
17 fulfill his duties.

18 PG&E has worked closely and constructively with the Monitor. The  
19 Monitor or his representatives frequently attend Utility management and  
20 operational meetings. They also frequently meet with the full Boards, Board  
21 committees, and individual Board members (including in executive session  
22 without management present). The Monitor has acknowledged that PG&E  
23 has cooperated and engaged with the Monitor at all levels of the  
24 company.<sup>19</sup>

## 25 **2. General Probation Conditions**

26 The Utility timely paid its \$3,000,000 fine and \$2,400 assessment on  
27 February 1, 2017 and did not pass the cost along to ratepayers, as required  
28 by special condition of probation Number 9. The Company also timely  
29 completed the requirements of special conditions Numbers 4 and 5 related  
30 to publicizing the conviction through an advertising campaign.

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<sup>19</sup> See, e.g., *id.*, Dkt. No. 972, Transcript of Nov. 6, 2018 Proceedings, at 2-7 (Jan. 18, 2019).

1 Before the Court amended special condition Number 7 on November 27,  
2 2019, the Utility had made substantial progress on its community service  
3 obligations and was on track to complete the requirements ahead of  
4 schedule. In developing a community service plan, the Utility met with the  
5 Probation Officer, San Bruno City Manager, San Bruno Director of  
6 Community Services, San Bruno Mayor, other city officials, and local  
7 community non-profits to understand San Bruno's service needs and  
8 priorities. The Utility's overall service strategy was focused on revitalizing  
9 schools and neighborhoods, including through San Bruno school  
10 transformation projects, local revitalization efforts, and skills-based tutoring  
11 and professional mentorship. As of December 1, 2019, the Utility had  
12 completed 7,478.25 (74.8 percent) of its 10,000 required total hours of  
13 community service, and 2,339.75 (117 percent) of its 2,000 required hours  
14 of community service by high-level personnel.

15 The Utility has contributed \$3,000,000 in funding toward the city of  
16 San Bruno's wildfire mitigation project in compliance with the Court's  
17 November 27, 2019 Order, which completes special condition Number 7  
18 under that Order. The Utility expects to continue performing community  
19 service in and around San Bruno as part of the Company's commitment to  
20 the communities it serves.

21 In addition, the Utility has been complying with the additional conditions  
22 of probation that were adopted in the Court's May 2019 Order.<sup>20</sup> PG&E  
23 assigned the Corporation Board's Compliance and Public Policy Committee  
24 the responsibility of tracking progress against the Utility's CPUC-approved  
25 Wildfire Safety Plan. In compliance with the Court's Order, the Committee's  
26 charter requires it to report to the Board both orally and in writing at least  
27 quarterly on the Utility's progress in meeting the terms of the Wildfire Safety  
28 Plan and the terms of probation that were adopted in April 2019 and, to the  
29 extent there are shortfalls, how the Utility will address the shortfalls. Also in  
30 compliance with the Court's Order, Board members and senior leaders  
31 visited Paradise on June 7, 2019 and San Bruno on July 16, 2019.

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<sup>20</sup> See Order Adopting New Conditions of Probation, *infra*, n.16.

### 3. Effective Compliance and Ethics Program

On July 26, 2017, the Utility made a submission to the Probation Office to fulfill its obligation to develop and submit an effective compliance and ethics program under special condition Number 3. PG&E also cooperates extensively with the Monitor's ongoing oversight of the Utility's compliance and ethics program.

Since 2010, PG&E has taken significant steps to improve and revamp its companywide Compliance and Ethics Program and to promote a culture of safety, ethics, and compliance. As summarized below, the program complies with § 8B2.1 of the Sentencing Guidelines, in accordance with the conditions of probation.

*First*, the Sentencing Guidelines recommend that the organization's governing authorities have knowledge and oversight of the content and implementation of the compliance and ethics program, that high-level personnel of the organization ensure its effectiveness, and that specific individuals are delegated day-to-day responsibilities for its operation.<sup>21</sup> Consistent with these recommendations, PG&E has substantially increased senior management-level and Board-level oversight of its Compliance and Ethics Program and has significantly expanded its compliance and ethics team.

In March 2015, PG&E created the executive-level position of Chief Ethics and Compliance Officer to oversee the Compliance and Ethics Program. I joined PG&E as the Chief Ethics and Compliance Officer in May 2015. As Chief Ethics and Compliance Officer, I report directly to PG&E's President and CEO, as well as the Boards and their relevant committees. In 2015, the PG&E Corporation Board reconstituted its Public Policy Committee into the Compliance and Public Policy Committee to help ensure comprehensive and coordinated oversight of the Compliance and Ethics Program.

At the most senior level of management, PG&E developed a broad-based officer-level Compliance and Ethics Committee, which meets regularly to discuss critical compliance and ethics matters. At the next level

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<sup>21</sup> See U.S.S.G. § 8B2.1(b)(2).

1 of management is the director-level Compliance and Ethics Leadership  
2 Team, which is responsible for developing and implementing strategies and  
3 policies related to Compliance and Ethics across PG&E. I lead the officer-  
4 level Compliance and Ethics Committee, and the Compliance and Ethics  
5 Leadership Team reports directly to me.

6 Each Compliance and Ethics Leadership Team member is supported  
7 by a manager-level Compliance and Ethics Liaison from his or her line of  
8 business (LOB). The Compliance and Ethics Liaisons are responsible for  
9 the day-to-day implementation of compliance and ethics programs for each  
10 LOB. Each LOB also has its own risk and compliance committee, which  
11 regularly reviews that business's most significant risks and compliance  
12 requirements, including the status of associated mitigation measures.

13 PG&E's Compliance and Ethics Department has significantly expanded  
14 since the beginning of 2016 from 12 to approximately 28 full-time staff  
15 members. The Department is responsible for building and implementing  
16 PG&E's Compliance and Ethics Program, and it provides subject-matter  
17 expertise, tools, resources, and guidance on compliance and ethics  
18 matters to leaders and employees (including coordination and sharing of  
19 best practices).

20 *Second*, the Sentencing Guidelines recommend that the organization  
21 assess and evaluate the effectiveness of the compliance and ethics  
22 program.<sup>22</sup> PG&E has a 5-year, integrated strategic planning process with  
23 an annual cycle. Every spring, we hold a day-long meeting with the  
24 Company's CEO and President, and senior executives from each LOB,  
25 referred to as "Session D," to review and assess the companies' risk and  
26 compliance issues. During Session D, we discuss top operational risks  
27 (including safety and compliance risks), review the LOBs' management of  
28 those risks and any challenges, and discuss mitigation plans to address the  
29 risks. This meeting represents the culmination of several months of  
30 preparation by the LOBs.

31 During 2019's Session D, PG&E's Compliance and Ethics Department  
32 introduced cultural challenges as a risk. Specifically, the Department

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<sup>22</sup> See *id.* §§ 8B2.1(b)(5)(B), (c).

1 worked with multiple stakeholders to review how accountability gaps could  
2 lead to noncompliance and how undue pressure to meet metrics could  
3 prevent employees from speaking up. The Department led an interactive  
4 brainstorming discussion with the leadership team to develop actionable  
5 next steps to address these challenges, including developing a campaign to  
6 promote listening up and following up for safety and compliance. The  
7 Department has already begun implementing this campaign by integrating  
8 these topics into the two enterprise-wide trainings it leads and by developing  
9 a podcast designed to help employees better understand these topics.

10 In addition, in 2016, PG&E developed and implemented a standardized  
11 framework called the Compliance and Ethics Maturity Model to assess the  
12 effectiveness of each LOB's compliance program. The Maturity Model  
13 scores each program on eight different elements derived from the U.S.  
14 Federal Sentencing Guidelines. The Compliance and Ethics Department  
15 regularly reports to senior management and the Board on the progress  
16 toward achieving compliance maturity. In addition, the department facilitates  
17 the sharing of best practices across LOBs. In 2019, PG&E also initiated a  
18 parallel program to promote coordinated compliance management of several  
19 cross-functional, shared compliance programs.

20 *Third*, the Sentencing Guidelines recommend that the organization have  
21 established standards and procedures for compliance and ethics.<sup>23</sup> In  
22 February 2018, PG&E released an updated Employee Code of Conduct that  
23 integrates PG&E's new Mission, Vision, and Culture statements and focuses  
24 on the importance of speaking up about safety issues, misconduct, and new  
25 ideas. That Code sets forth PG&E's conduct standards and policies,  
26 explains how employees can report compliance and ethics issues, and  
27 describes PG&E's strong non-retaliation policy. In summer 2018, PG&E  
28 updated the Boards' Code of Conduct and the Supplier Code of Conduct to  
29 align with the refreshed Employee Code of Conduct and the Company's  
30 Mission, Vision, and Culture statements.

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<sup>23</sup> See *id.* § 8B2.1(b)(1).

1           *Fourth*, the Sentencing Guidelines recommend that the organization  
2           communicate its standards and train its personnel.<sup>24</sup> PG&E's Compliance  
3           and Ethics Department leads two annual enterprise-wide trainings: a live,  
4           leader-led compliance and ethics training and a web-based Code of  
5           Conduct training. Both trainings emphasize the importance of speaking up  
6           and non-retaliation. In 2019, the Department led the annual compliance and  
7           ethics training at the Company's Officers and Directors meeting in June,  
8           which enabled approximately 200 officers and directors to discuss  
9           compliance and ethics together at one live session, including through a lively  
10          and interactive "town hall" style Q&A session. The training emphasized how  
11          leaders can impact the Speak Up, Listen Up, Follow Up ("Speak Up")  
12          culture, the importance of speaking up in difficult situations, and the critical  
13          importance of PG&E's strict non-retaliation policy. In addition to these  
14          enterprise-wide trainings, PG&E provides many other trainings related to  
15          compliance and ethics, including through its LOBs.

16          PG&E makes numerous strategic communications regarding  
17          compliance and ethics. One of PG&E's flagship communication efforts is its  
18          annual all-employee Compliance and Ethics Week ("C&E Week"), which in  
19          2017 was extended to a full week of trainings, activities, and guest  
20          presentations. During the 2017 C&E Week, PG&E established an annual  
21          Speak Up Award Program, at which senior leaders honor employees who  
22          speak up about an issue or concern to highlight that PG&E encourages  
23          people to speak up to promote safety and compliance. The 2018 C&E  
24          Week also included PG&E hosting a two-day meeting of the National Energy  
25          Compliance Forum, an association of energy company compliance and  
26          ethics leaders, at which the twenty-four attending energy companies shared  
27          best practices in implementing compliance and ethics.

28          PG&E's 2019 C&E Week focused on personal accountability in  
29          managing data and records, highlighting the theme, "*I'm accountable: my*  
30          *work, my records, my integrity.*" At the third annual Speak Up Award  
31          program, we recognized approximately seventy nominated employees and  
32          honored nine selected awardees who exhibited the courage to speak up

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<sup>24</sup> See *id.* § 8B2.1(b)(4)(A)-(B).



1 about an issue or concern to promote safety or compliance. The 2019 C&E  
2 Week also included a panel conversation that I moderated with the CEO and  
3 President of the Utility and the CEO and President of PG&E Corporation  
4 regarding the importance of accountability in managing data and records in  
5 our day-to-day work.

6 In addition to the annual C&E Week, PG&E holds other trainings and  
7 events to promote compliance and ethics. For example, in 2018, PG&E  
8 elicited a series of executive-level stories from senior leaders that  
9 highlighted speak-up behaviors, including taking accountability for their  
10 mistakes, and underscoring the importance of a speak-up culture. Further,  
11 PG&E's Compliance and Ethics Department publishes a monthly newsletter  
12 promoting the importance of compliance and ethics and providing updates  
13 on critical initiatives.

14 *Fifth*, the Sentencing Guidelines recommend that the organization  
15 provide the opportunity for employees to report or seek guidance on  
16 compliance and ethics issues.<sup>25</sup> As noted above, a top priority of PG&E's  
17 Compliance and Ethics Program is encouraging people to speak up  
18 regarding safety issues, misconduct, and new ideas. In 2018, PG&E's  
19 Compliance and Ethics Department established a systematic approach to  
20 continue to improve its Speak Up culture through governance, behavioral  
21 tools, training, and communications.

22 In 2019, PG&E's Compliance and Ethics Department assumed  
23 responsibility for the Company's Reach Every Employee (REE) Program,  
24 which is designed to promote regular, meaningful conversations between  
25 supervisors and their employees, consistent with the existing Speak Up  
26 effort. PG&E expanded the REE Program this year from exclusively safety-  
27 specific conversations to discussions on a broader array of concerns,  
28 including safety, potential misconduct, and employees' new ideas. PG&E  
29 also enhanced the program by asking leaders to demonstrate accountability  
30 with their teams by following up after the conversations.

31 PG&E has several mechanisms for people to report or seek guidance on  
32 compliance and ethics issues. PG&E has a 24-hour Compliance and Ethics

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<sup>25</sup> See *id.* § 8B2.1(b)(5)(C).



1 Helpline that is available to all employees, contractors, consultants, and  
2 suppliers and can be accessed by web, email, or a toll-free number. The  
3 helpline is administered by a leading third-party provider, Navex Global, and  
4 people have the option to submit reports anonymously. Employees also can  
5 seek guidance or report concerns through PG&E's Corrective Action  
6 Program or the independent Monitor Helpline, noted above.

7 In addition, to promote a culture of speaking up, senior leaders  
8 continuously encourage employees to raise issues directly to them. Such  
9 issues are promptly addressed through PG&E's Corrective Action Program  
10 or Compliance and Ethics Department, as appropriate. Further, PG&E  
11 established the PG&E Ethics Council, which includes representatives from  
12 all levels across the Company, to facilitate open dialogue between  
13 management and front-line employees regarding ethical issues. The  
14 Council meets several times each year and asks its members to bring the  
15 discussions back to their LOBs.

16 *Finally*, the Sentencing Guidelines have various recommendations to  
17 ensure that the organization promotes the consistency and accountability of  
18 its program.<sup>26</sup> In 2016, PG&E's Compliance and Ethics Department  
19 partnered with a third-party expert and key internal stakeholders to redesign  
20 its investigations and reporting processes based on the Sentencing  
21 Guidelines recommendations. The redesigned processes promote thorough  
22 and timely investigations, standardize discipline across the enterprise,  
23 provide for centralized oversight and records management, and improve  
24 tracking and reporting on trends and lessons learned. For example, PG&E  
25 tracks the Compliance and Ethics Helpline calls to identify recurring issues  
26 and trends. The Company also conducts internal audits to evaluate the  
27 effectiveness of its compliance processes and controls. As part of my  
28 regular reporting to Board committees and to senior management, I provide  
29 updates regarding any significant misconduct issues and/or trends.

#### 30 **4. Oversight of Wildfire Safety**

31 PG&E's wildfire safety programs and measures are discussed in detail  
32 in Chapter 6. As discussed in that chapter, the Utility has timely completed

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<sup>26</sup> See *id.* §§ 8B2.1(b)(3), (b)(5)(A), (b)(6), (b)(7).

1 its goals of performing enhanced vegetation management work on  
2 approximately 2,450 circuit miles in High Fire Threat Districts and hardening  
3 its 150 highest-risk miles through its System Hardening Program.

4 **a. Monitor Oversight**

5 PG&E has fully cooperated with the Monitor's oversight of its electric  
6 operations and wildfire safety pursuant to the Court's April 2019 Order  
7 and has given his team extensive access to PG&E's employees,  
8 contractors, records, and facilities to enable his review. The Monitor  
9 team has undertaken numerous activities focused on electric operations,  
10 including inspecting lines and equipment in the field. For example,  
11 through November 22, 2019, the Monitor team had inspected over  
12 450 circuit miles. The Monitor team sends the Utility periodic reports on  
13 their findings, as well as any escalated identifications of specific  
14 potential issues, and the Utility promptly addresses them. The Monitor  
15 team also is in the early stages of validating the infrastructure inspection  
16 work performed under the Utility's Wildfire Safety Inspection Program.

17 In addition to performing inspections, the Monitor has participated in  
18 operational meetings regarding the Utility's Public Safety Power Shutoff  
19 (PSPS) Program and was embedded full-time in the Utility's Emergency  
20 Operations Center during each PSPS event in 2019. The Utility also  
21 provides the Monitor with real-time emergency response and operational  
22 updates during and following wildfires.

23 In August 2019, the Utility received a copy of a letter report from the  
24 Monitor to the Court on his team's vegetation management field  
25 inspections, in which the Monitor preliminarily observed that the Utility's  
26 contractors had missed some trees that should have been identified and  
27 worked under the Utility's Enhanced Vegetation Management Program,  
28 and that the systems for tracking and assigning such work may have  
29 contributed to the missed work. Notably, the vast majority of the  
30 potential missed trees were missed only in the sense that they arose  
31 under the aggressive standards that the Utility voluntarily chose to adopt  
32 in its Program, and that went beyond the minimum requirements  
33 imposed by law; such misses do not indicate violations of state or

1 federal regulations.<sup>27</sup> Nevertheless, the Utility is committed to meeting  
2 its elevated safety standards and, based on the Monitor's letter report  
3 and the Utility's own findings, the Utility has implemented several  
4 measures to address the concerns and recommendations.

5 Below are examples of the measures that the Utility has  
6 implemented to reduce the number of potential missed trees:

- 7 • The Utility implemented a new training program for all new  
8 pre-inspectors performing enhanced vegetation management work  
9 and all contractors assigned to the post-work verification teams;
- 10 • The Utility began requiring its pre-inspectors to pass a competency  
11 test, which is designed to assess their preparedness to accurately  
12 identify the enhanced vegetation management work that should be  
13 prescribed in the field;
- 14 • The Utility incorporated additional layers of controls within its  
15 enhanced vegetation management process, including by adding a  
16 second layer of review by pre-inspectors and by adding a quality  
17 assurance group to randomly review circuit segments after the post-  
18 work verification team has completed its assessment;
- 19 • The Utility has been conducting bi-weekly meetings with contractors  
20 to keep them apprised of any updates or new requirements, to  
21 discuss any personnel issues, and to solicit feedback on potential  
22 process improvements, among other things;
- 23 • The Utility has created enhanced written training materials for its  
24 pre-inspectors; and
- 25 • The Utility has brought on additional personnel to provide further  
26 oversight of the execution of the Enhanced Vegetation Management  
27 Program, including a VP, 2 Directors, 22 Execution Staff, and  
28 15 Support Staff.

29 Below are examples of the measures that the Utility has instituted to  
30 improve its records management:

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<sup>27</sup> Also, the identified difficulties partly arose from changes in scope arising mid-stream as a result of the Commission's May 30, 2019 Order prohibiting the removal of healthy trees without tree-specific arborist determinations, and more fundamentally from the unprecedented speed and scale of roll-out of this new program.

- The Utility has taken steps to standardize contractors' use of Arc Collector—a recently introduced mobile application that pre-inspectors use to record work;
- The Utility is surveying and capturing all of its overhead power lines in Tier 2 and Tier 3 High Fire Threat Districts using Light Detection and Ranging (LiDAR) technology to address potentially inaccurate line depictions in Arc Collector;
- The Utility's new training program for pre-inspectors discussed above includes detailed training on the proper use of Arc Collector;
- The Utility has developed enhanced reference materials on Arc Collector for use in the field;
- The Utility has implemented certain controls within the Arc Collector application to ensure that the necessary information is recorded and that certain data cannot later be revised or overwritten; and
- The Utility now requires that pre-inspectors, tree crews, and post-work verifications crews use a partner application—Survey 123—to certify that work is complete.

PG&E is dedicated to mitigating the risk of wildfires and continues to assess its wildfire safety practices to determine whether additional improvements would be beneficial.

#### **b. Court Oversight**

The Court also has been engaged in overseeing the Utility's ongoing wildfire prevention efforts, and the Utility has been complying with the Court's requests for information. On December 20, 2019, the Court requested that the Utility file a statement regarding its compliance with two of the conditions of probation relating to vegetation management and the Utility's Wildfire Safety Plan.<sup>28</sup>

In the Utility's response on January 15, 2020, the Utility explained that it "is unable to certify that it is in perfect compliance with all applicable regulations at any specific point in time" due to "the size of its service territory, the dynamic environment that PG&E power lines run

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<sup>28</sup> See *United States v. Pacific Gas & Electric Co.*, No. 3:14-CR-00175, Dkt. No. 1129, Questions Re Probation Conditions (Dec. 20, 2019).

1 through and other legal and practical limitations,” but that it “has made  
2 significant progress in enhancing its readiness and responsiveness to  
3 the increased threat of potential wildfires across its service territory” and  
4 “is taking a comprehensive, multi-pronged approach that aims to  
5 achieve as close to the standard of perfect compliance as feasible.”<sup>29</sup>  
6 In addition, the Utility stated that it “made it a top priority in 2019 to meet  
7 the specific targets and metrics set forth in [its Wildfire Safety Plan],”  
8 and that it has met or exceeded 46 of the 53 commitments set forth in  
9 the plan.<sup>30</sup> The Utility explained why it was unable to meet 7 of the  
10 commitments and the steps it has been taking to address those  
11 commitments.<sup>31</sup>

12 Because the Utility has identified a lack of qualified personnel as  
13 one of the challenges it has faced, on January 16, 2020, the Court  
14 ordered the Utility to show cause why a further condition of probation  
15 should not be imposed requiring the Utility to hire and train sufficient  
16 crews and equipment as part of its own workforce to come into full  
17 compliance with the California Public Resources Code and PG&E’s  
18 Wildfire Safety Plan.<sup>32</sup> On January 24, 2020, the Court ordered the  
19 Utility to also show cause why a further condition of probation should not  
20 be imposed “restrict[ing] all bonuses and other incentives for supervisors  
21 and above *exclusively* to achieving the PG&E Wildfire Mitigation Plan  
22 and other safety goals.”<sup>33</sup> A hearing on these issues is set for  
23 February 19, 2020.<sup>34</sup>

#### 24 **F. Potential Impact of Plan and PG&E Governance**

25 The Utility has been working diligently to comply with all of the conditions of  
26 probation and intends to comply with the conditions moving forward, including

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29 *Id.*, Dkt. No. 1132, Response to Request for Information Regarding Probation  
Conditions, at 2-3 (Jan. 15, 2020).

30 *Id.* at 9.

31 *Id.* at 9-13.

32 *Id.*, Dkt. No. 1133, Order to Show Cause (Jan. 16, 2020).

33 *Id.*, Dkt. No. 1134, Further Order to Show Cause (Re Bonuses) (Jan. 24, 2020)  
(emphasis in original).

34 *Id.*, Dkt. Nos. 1133 & 1134, *infra*, nn.32 & 33.

1 upon emergence from bankruptcy under PG&E's proposed Plan of  
2 Reorganization ("Plan"). PG&E anticipates and intends that as reorganized  
3 under its Plan, the Utility will continue with the extensive probation compliance  
4 efforts described above, including the related governance enhancements  
5 focused generally on safety, ethics and compliance matters. In addition,  
6 PG&E's proposed Plan does not propose any structural changes to its corporate  
7 governance or structure that could implicate the Utility's probation, and the  
8 reorganized Utility will remain fully subject to the probation under the Court's  
9 Judgment.<sup>35</sup>

10 However, the Commission's rulings in this proceeding or in related  
11 proceedings could potentially impact certain conditions of probation. PG&E's  
12 Plan provides that "CPUC Approval" is a condition precedent to the Plan taking  
13 effect.<sup>36</sup> The Plan defines CPUC Approval to mean "all necessary approvals,  
14 authorizations and final orders from the CPUC to implement the Plan, and to  
15 participate in the Go-Forward Wildfire Fund."<sup>37</sup> CPUC Approval is further  
16 defined to encompass the resolution of specified issues, including "proposals for  
17 certain potential changes to the Utility's corporate structure and authorizations to  
18 operate as a utility."<sup>38</sup> If CPUC Approval were to include significant structural  
19 changes, certain conditions of probation could be implicated, such as the  
20 following terms:

- 21 • The Utility must "not dissolve, change its name, or change the name under  
22 which it does business unless this judgment and all criminal monetary  
23 penalties imposed by this court are either fully satisfied or are equally  
24 enforceable against the defendant's successors or assignees";
- 25 • The Utility must "not waste, nor without permission of the probation officer,  
26 sell, assign, or transfer its assets"; and

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<sup>35</sup> See Judgment, *infra* n.2, at 17 ("In the event of a sale of the gas pipeline transmission system, assignment or transfer of all of PG&E's stock or assets to an unaffiliated third party pursuant to an arm's-length transaction, the terms of this Order shall continue to apply to PG&E and to any successor of PG&E.").

<sup>36</sup> See Debtors' Joint Ch. 11 Plan of Reorg. Dated Jan. 31, 2020, *In re: PG&E Corp.*, No. 19-30088, §§ 9.1(c), 9.2(m) (Bankr. N.D. Cal. Jan. 31, 2020).

<sup>37</sup> *Id.* § 1.37.

<sup>38</sup> *Id.* § 1.37(b).

1           The Utility must “notify the probation officer and monitor immediately upon  
2     learning of: (A) any material adverse change in its business or financial  
3     condition or prospects; or (B) the commencement of any bankruptcy proceeding,  
4     major civil litigation, criminal prosecution, or administrative proceeding against  
5     the organization, or any investigation or formal inquiry by governmental  
6     authorities regarding the organization.”<sup>39</sup>

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<sup>39</sup> See Judgment, *infra* n.2, at 2-3.

**PACIFIC GAS AND ELECTRIC COMPANY**  
**CHAPTER 9**  
**CLIMATE (SCOPING MEMO ISSUE 3.3)**



PACIFIC GAS AND ELECTRIC COMPANY  
CHAPTER 9  
CLIMATE (SCOPING MEMO ISSUE 3.3)

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**PACIFIC GAS AND ELECTRIC COMPANY**  
**CHAPTER 9**  
**CLIMATE (SCOPING MEMO ISSUE 3.3)**

**A. EXECUTIVE SUMMARY**

Pacific Gas and Electric Company (the Company or the Utility) has a well-established track record in its commitment to sustainability and meeting the challenge of climate change that is central to the Company's Vision and Mission. That commitment includes alignment of our resources and business strategy with the state's clean energy goals, and advocacy for policies and programs that enable safe, reliable, affordable and clean electricity and gas service for our customers. In particular, we are dedicated to providing clean energy programs, including energy efficiency (EE) initiatives and electric vehicle (EV) programs, which support our customers and communities.

PG&E has met and will meet applicable procurement and other standards pursuant to the state's overall climate goals. We proactively engage with the State, regulators, and stakeholders on climate, Renewable Portfolio Standards (RPS), and procurement issues. A reorganized PG&E will continue in this stead and will comply with any future climate or procurement mandates issued by the California Public Utilities Commission (CPUC or Commission) or by the Legislature. We have a track record of partnership with the Commission and the State on climate and procurement mandates. Historically, the Utility has satisfied and even surpassed applicable RPS mandates, and it is on track to meet the 60 percent by 2030 RPS procurement goal. The Utility also has achieved a high percentage of deliveries from clean energy sources, including nearly 80 percent of its electric power mix from greenhouse gas (GHG) free sources in 2018.

**B. INTRODUCTION**

**1. Witness Introduction (J. Hogle)**

My name is Jessica Hogle. I am the Vice President of Federal Affairs and Corporate Sustainability for PG&E Corporation, the parent company of the Utility. I manage and direct the team responsible for PG&E's sustainability efforts and engagement, and advise corporate leadership on

1 how best to integrate and align PG&E's sustainability strategy with its  
2 business strategy.

3 I am also responsible for leading activities to shape public affairs  
4 policies and develop, implement, and manage federal affairs strategies to  
5 advance national energy and economic policies and initiatives in support of  
6 PG&E's sustainability strategy, business operations, employees, and  
7 customers. In my dual role as chief federal lobbyist and overseer of  
8 corporate sustainability, I am responsible for building relationships at the  
9 national level with non-governmental organizations, trade associations,  
10 advocacy organizations, and other key stakeholders.

11 Prior to joining PG&E in 2008, I was the Director of Political and  
12 Legislative Affairs for the Portland Cement Association, after working on  
13 Democratic Senate campaigns in the 2004 and 2006 election cycles. I  
14 received my Bachelor of Arts in Religion at the University of the South,  
15 Sewanee, Tennessee.

## 16 **2. Witness Introduction (M. Wyspianski)**

17 My name is Martin Wyspianski. As the Senior Director for Energy  
18 Portfolio Procurement and Policy at the Utility, I am responsible for  
19 developing policy positions and managing commercial transactions related  
20 to the Utility's energy portfolio. I also manage the requests for offers and  
21 negotiations of power purchase agreements related to renewable energy,  
22 energy storage, Distributed Energy Resources, and other wholesale  
23 market activities.

24 I joined PG&E in 2006 and have served in a variety of roles across the  
25 Company, including as Senior Director of Market and Credit Risk  
26 Management, Director of Enterprise Risk Management and Insurance,  
27 Manager of Strategic Renewable Investment and Principal in Corporate  
28 Strategy and Development. I hold a Bachelor of Science degree in  
29 Chemical Engineering from Brown University and a Master of Business  
30 Administration from the Haas School of the University of California  
31 at Berkeley.

### 3. Introduction to Testimony

Assembly Bill (AB) 1054, as codified in Public Utilities Code (Pub. Util. Code)§ 3292(b)(1)(D), requires the Commission to “determin[e] that the reorganization plan and other documents resolving the insolvency proceeding are ... consistent with the state’s climate goals as required pursuant to the California Renewables Portfolio Standard Program and related procurement requirements of the state.”

In Section C of this chapter, Ms. Hogle describes PG&E’s longstanding dedication to the shared values of sustainability and its role as a partner in implementing California’s broader clean energy and climate vision. PG&E Corporation and the Utility will continue to honor and meet our commitments to California’s clean energy and climate goals—both throughout the bankruptcy process and beyond. We are resolved to mitigate carbon emissions and adapt our operations to a changing climate, to run our business sustainably, and to help our communities build resilience against climate threats. Our strong track record on sustainability demonstrates the strength of our ongoing commitment to these issues.

In Section D of this chapter, Mr. Wyspianski describes how PG&E’s Plan of Reorganization (the Plan or PG&E’s Plan) is consistent with California’s climate goals and related California procurement obligations. PG&E recognizes its important role in supporting the State’s clean and renewable energy goals and throughout the Chapter 11 process, PG&E has remained committed to helping California achieve those goals. PG&E will continue to support the State’s clean and renewable energy goals after emergence and remains well-positioned to meet its clean and renewable energy obligations going forward.

## C. PG&E VALUES ITS CLEAN ENERGY PARTNERSHIP WITH THE STATE OF CALIFORNIA (J. HOGLE)

### 1. PG&E’s Mission and Vision Places Sustainability at Its Center

Corporate sustainability is integral to PG&E’s business strategy. We define sustainability as meeting the needs of today in a way that creates a better tomorrow for our customers, communities, employees, and the planet. We take an approach that considers our operations through the lens of

1 preparing for the future and providing ongoing, long-term value to our many  
2 stakeholders. Doing so is what customers, investors, policymakers,  
3 regulators, environmental and social justice advocates and many others  
4 expect and deserve from PG&E.

5 PG&E's Mission and Vision framework places a sustainable energy  
6 future at the center, and helps guide our decisions.

- 7 • Our Mission: To safely and reliably deliver affordable and clean energy  
8 to our customers and communities every single day, while building the  
9 energy network of tomorrow; and
- 10 • Our Vision: With a sustainable energy future as our North Star, we will  
11 meet the challenge of climate change while providing affordable energy  
12 for all customers.

## 13 **2. PG&E Advocates for Public Policies That Promote Climate Solutions** 14 **and Clean Energy**

15 PG&E advocates for public policies consistent with our Vision and  
16 Mission, and that further its commitment to environmental leadership. Our  
17 public policy advocacy is funded by shareholders: PG&E's political  
18 contributions comply with the law and with PG&E's Political Contributions  
19 Policy and Procedures. PG&E's public policy activities are overseen by the  
20 Compliance and Public Policy Committee of the PG&E Corporation Board of  
21 Directors, and an annual report is prepared each year which details political  
22 contributions made by PG&E.

23 In 2006, PG&E developed a Climate Change Policy Framework to  
24 establish our principles for programs and policies to address global climate  
25 change, and to guide our activities to ensure consistency in our advocacy of  
26 public policy. In the intervening years, we have updated the Framework to  
27 incorporate new objectives and reflect how we and the State have  
28 implemented aspects of the Framework. The principles outlined in the  
29 Framework support advocacy for policies that include verifiable emission  
30 reductions; are cost-effective, affordable, and foster innovation; establish an  
31 economywide, market-based price on carbon; promote GHG reductions  
32 beyond California; and support resilience and adaptation. The policy, by  
33 design and consistent with our Vision, states that we will work to reduce

1 GHG emissions and environmental impacts from our operations, and act as  
2 a valuable partner to do so in California and beyond.

3 Examples of our advocacy efforts consistent with the Climate Change  
4 Policy Framework include:

5 • Reducing GHG emissions and pricing carbon:

- 6 – PG&E was the first investor-owned utility to support AB 32 (2006),  
7 which established the state's first economywide GHG emissions  
8 target (the 2020 target) and authorized the state's cap-and-trade  
9 program. We also supported Senate Bill (SB) 32 (2016), which  
10 established the state's 2030 economywide GHG emissions target.  
11 We also supported AB 398 (2017) which authorized the California  
12 Air Resources Board (CARB) to strengthen and extend California's  
13 cap-and-trade program through 2030, helping ensure the state can  
14 meet its SB 32 target to reduce GHG emissions 40 percent below  
15 1990 levels by 2030. We have advocated at CARB in support  
16 of a well-designed cap-and-trade program in CARB's many  
17 cap-and-trade rulemakings over the past decade, including most  
18 recently concerning the implementation of AB 398.
- 19 – PG&E supported significant RPS legislation in California, including  
20 SB 350 (2015) which increased the state's RPS objective to  
21 50 percent by 2030, doubled state EE goals, and seeks to  
22 accelerate widespread transportation electrification.
- 23 – PG&E also supports and is an active participant in CARB's Low  
24 Carbon Fuel Standard (LCFS). Through this program, PG&E is the  
25 steward of credits generated by EV charging on its electric system.  
26 PG&E provides a majority of the revenues generated by these  
27 credits to a forthcoming statewide point-of-sale incentive to EV  
28 buyers. This incentive program is in addition to existing state and  
29 federal tax credits and rebate programs, and will help place EVs on  
30 a competitive footing with internal-combustion-engine vehicles.  
31 PG&E uses the remainder of revenues generated by LCFS  
32 credit sales to accelerate transportation electrification within its  
33 service area.

- 1       • Supporting customer affordability and equity:
  - 2           – In 2017, California took an important step to address air pollution in
  - 3           the most heavily burdened communities through the passage of AB
  - 4           617, which directs CARB to develop community air monitoring and
  - 5           community emissions reduction programs and to deploy them in the
  - 6           highest priority communities. PG&E strongly supports a
  - 7           comprehensive, statewide air protection program and was actively
  - 8           engaged in the development and passage of AB 617. We are
  - 9           working with CARB and other stakeholders through the AB 617
  - 10          implementation process to ensure that the community air protection
  - 11          programs are successful and effective at reducing emissions in
  - 12          disadvantaged communities.
  - 13          – PG&E collaborated with community stakeholders to manage the
  - 14          retirement of the Diablo Canyon Power Plant (Diablo Canyon). In
  - 15          2016, PG&E, labor unions, environmental groups, and community
  - 16          organizations sought Commission approval for a Joint Proposal to
  - 17          retire the nuclear facility at the end of its current operating licenses,
  - 18          in 2024 and 2025. Underpinning the agreement was the recognition
  - 19          that California's new energy policies will significantly reduce the
  - 20          need for Diablo Canyon's electricity output. PG&E has worked with
  - 21          the Commission and stakeholders to ensure that the Integrated
  - 22          Resource Planning process avoids any increase in emissions of
  - 23          GHGs as a result of the retirement of Diablo Canyon in 2024 and
  - 24          2025, as required by SB 1090 (2018).
- 25       • Promoting GHG reductions beyond California and positioning the State  
26       as a leader and innovator:
  - 27           – PG&E has long advocated for a national program to reduce GHG
  - 28           emissions consistent with the Framework. This has included active
  - 29           support for federal cap-and-trade legislation and the United States
  - 30           (U.S.) EPA's Clean Power Program, which proposed new carbon
  - 31           dioxide regulations for new and existing power plants under
  - 32           Section 111 of the Clean Air Act. PG&E is participating in
  - 33           various ongoing litigation activities in support of federal GHG



1 emission reduction strategies as well as coalitions supporting the  
2 U.S. participation in the Paris Agreement.

- 3 – PG&E also supports California’s stringent GHG tailpipe emissions  
4 standards, as well as advancing EV adoption by providing tax  
5 incentives and support for charging infrastructure. In 2019, as part  
6 of its membership in the National Coalition for Advanced  
7 Transportation, PG&E joined California and several other states in a  
8 lawsuit against revising the EPA’s existing GHG emission  
9 standards.

- 10 • Working with coalitions to amplify our efforts:

- 11 – PG&E works with broad industry and non-governmental entity  
12 coalitions to advocate for a federal price on carbon to reduce GHG  
13 emissions, and amplify our experience in California as proof positive  
14 that it is possible to grow the economy and reduce GHG emissions  
15 at the same time.
- 16 – In June 2019, Bill Johnson, PG&E Corporation’s Chief Executive  
17 Officer (CEO) and President, participated in a meeting of the U.S.  
18 Senate Democrats’ Special Committee on the Climate Crisis.  
19 During his remarks, Johnson discussed California’s ambitious  
20 renewable electricity and carbon reduction goals and PG&E’s  
21 progress; considerations for federal renewable or clean energy  
22 standards; and the need for climate adaptation in any federal policy,  
23 noting the impacts of climate change California is experiencing,  
24 including wildfires and PG&E’s Wildfire Safety Plan. Johnson also  
25 described his participation in the CEO Climate Dialogue, in which  
26 the CEOs of 13 Fortune 500 companies and four environmental  
27 groups collaborate regarding how best to address climate change at  
28 the federal level at the lowest possible cost. PG&E also has  
29 provided written comments and responses to the U.S. House  
30 Committee on Energy and Commerce and the U.S. House Select  
31 Committee on the Climate Crisis, regarding ways to adapt to and  
32 mitigate climate change that support California’s programs and  
33 customer affordability.

1 • Ensuring transparency and clarity in our advocacy efforts:

- 2 – PG&E’s sustainability efforts also encompass clear communication  
3 around our strategy, goals, and progress. In fact, holding ourselves  
4 accountable and reporting on the Company’s progress, performance  
5 and challenges with transparency has been a hallmark of our  
6 approach for many years. PG&E Corporation produces an annual  
7 Corporate Responsibility and Sustainability Report to share  
8 progress and responds to various environmental, social and  
9 governance disclosure requests, including the CDP questionnaire  
10 on risks and opportunities associated with climate change. On a  
11 voluntary basis, we also report a comprehensive GHG emissions  
12 inventory to The Climate Registry, a nonprofit organization. We also  
13 publicly disclosed a Climate Change Vulnerability Assessment that  
14 assessed climate-driven risks to the Utility’s assets and  
15 infrastructure; and publicly disclosed the results of a sustainability  
16 materiality assessment, which used a structured process to better  
17 understand the perspectives of external stakeholders on the issues  
18 most important to them.
- 19 – Additionally, PG&E’s external Sustainability Advisory Council  
20 provides guidance and feedback to PG&E on clean energy-related  
21 issues including energy affordability and social equity. The group,  
22 made up of community and environmental leaders, policy experts  
23 and business entrepreneurs, meets regularly with PG&E leaders to  
24 share feedback, identify new areas of opportunity and inspire  
25 collaboration with new partners.

26 Going forward, we are committed to meeting California’s vision for a  
27 sustainable energy future, including implementation of SB 100, and carbon  
28 neutrality by 2045, in a reliable and cost-effective manner for customers.

29 **3. PG&E Invests in Climate-Related Initiatives**

30 PG&E invests in climate-related initiatives for its operations, which  
31 demonstrate its commitment to addressing the challenge of climate change.  
32 PG&E’s sustainability commitment is shaped by California’s regulatory and  
33 public policy priorities.

1           **a. Million Ton Challenge**

2           PG&E launched the Million Ton Challenge, a voluntary 5-year  
3 carbon reduction goal for PG&E's operations. Our goal is to avoid one  
4 million tons of cumulative GHG emissions from our operations from  
5 2018 through 2022, compared to a 2016 baseline. To achieve the goal,  
6 we are reducing methane emissions from our natural gas operations,  
7 reducing sulfur hexafluoride (SF<sub>6</sub>) emissions from electric substation  
8 equipment, saving energy in our facilities, and deploying a smarter,  
9 cleaner fleet of company vehicles.

10          **b. Gas Operations**

11          PG&E has invested in sustainability-oriented efforts to maintain and  
12 operate the gas system safely and reliably. We joined the U.S. EPA's  
13 Natural Gas Methane Challenge in 2016 as a founding partner, a  
14 voluntary program aimed at reducing emissions beyond regulatory  
15 requirements. We have participated in EPA's Natural Gas STAR  
16 program since 2008. Also, in 2016, we partnered with the  
17 Environmental Defense Fund in its Methane Detectors Challenge, a  
18 partnership aimed to raise awareness and increase gas pipeline  
19 methane leak detection and repairs. We were the first company to pilot  
20 innovative methane detection laser technology from Acutect, Inc., a San  
21 Francisco based startup company, at a natural gas storage facility.

22          We also have invested in enhanced leak response and repair.  
23 We use a diverse array of state-of-the-art tools to survey and inspect  
24 our gas infrastructure by air, land and water. We use the Picarro  
25 Surveyor™ as a detection vehicle, which is one of the most sensitive  
26 methane-detection technologies available, measuring methane in parts  
27 per billion. Since 2014, our Picarro gas leak survey vehicles have  
28 enabled us to more quickly identify leaks and prioritize them for repair,  
29 and to reduce the backlog of minor non-hazardous workable leaks.

30          We also welcome the opportunity to avoid investments in new gas  
31 assets that may later prove underutilized as local governments and the  
32 state work together to meet long term decarbonization objectives. We  
33 have supported several local ordinances to ban the use of natural gas in  
34 new buildings.

1           **c. Modernizing the Electric Grid**

2           We recognize that integration of renewable energy and distributed  
3           generation requires investment in grid modernization technologies and  
4           creation of an integrated platform for grid connectivity. We invest in  
5           efforts to modernize the grid, including deployment of Smart Grid  
6           technologies. The Smart Grid is a modernized electric system that  
7           takes advantage of advanced communications and controls.

8           We engage in research and development into clean energy,  
9           including to explore and expand on Commission policies and programs.  
10          In one such project, funded by the Electric Program Investment Charge,  
11          PG&E explored the potential of smart inverters to prevent our  
12          customers' solar systems from contributing to voltage fluctuations and  
13          adverse impacts on protection systems due to reverse power flow. As  
14          another example, PG&E worked in collaboration with several partners to  
15          demonstrate how a Distributed Energy Resource Management System  
16          can enhance the stability and power quality of the grid and optimize  
17          power-flow management, increasingly important as more customers  
18          adopt solar and storage.

19          We also are working to reduce emissions of SF<sub>6</sub>, which is commonly  
20          used by PG&E and other energy companies as an electrical insulating  
21          material in high-voltage circuit breakers and gas-insulated switchgear;  
22          however, if it escapes to the atmosphere, it contributes to global  
23          warming. We have established a multi-pronged approach to address  
24          SF<sub>6</sub>, which includes repairing the highest leaking circuit breakers,  
25          implementing SF<sub>6</sub> best management practices, phasing in SF<sub>6</sub>-free  
26          equipment, and engaging with CARB on regulatory amendments to  
27          phase-out SF<sub>6</sub> over the long term.

28           **4. PG&E's Clean Energy Programs Support Customers and Aim to Leave**  
29           **No Customers Behind**

30          We partner with our customers to help keep customer energy bills  
31          affordable, promote clean transportation, and invest in local communities.

1           **a. Energy Efficiency Initiatives**

2           PG&E engages with customers to help reduce their energy use  
3 through programs that help keep customer energy bills affordable,  
4 reduce load on the grid, and meet California's clean energy goals. Our  
5 EE initiatives include:

- 6           • Working to reduce financial barriers to EE upgrades for residential,  
7 commercial and government customers. Our EE financing program  
8 provides commercial customers and government agencies with  
9 loans for EE upgrades with no out-of-pocket costs and zero interest.
- 10          • Giving customers access to their data to support smart energy  
11 planning. The Home Energy Checkup program offers a  
12 customizable energy assessment tool to help residential customers  
13 find out which appliances are using energy in their homes and offers  
14 personalized suggestions on how to make improvements that will  
15 save energy and costs.
- 16          • Collaborating with retailers, distributors and others to increase the  
17 availability and uptake of high-efficiency products.
- 18          • Advocating for stronger building codes and appliance standards  
19 in collaboration with entities such as the California Energy  
20 Commission (CEC), while continuing to serve as California's  
21 statewide coordinator for utility initiatives and analyses on  
22 standards.
- 23          • Advancing Zero Net Energy (ZNE) design and technology, and  
24 supporting California's goal for all newly constructed residential  
25 buildings to be ZNE by 2020.
- 26          • Maintaining our longstanding leadership role in the nation's first  
27 interdisciplinary EE institute at the University of California Davis and  
28 in the "best practices" clearinghouse for EE and demand response  
29 at the Consortium for Energy Efficiency.

30           PG&E's portfolio is designed to maximize customer uptake and  
31 impact by using a variety of channels, from self-service software tools to  
32 PG&E's business customer account representatives. We also partner  
33 with state and local governments, community partners and third-party  
34 EE specialists. We operate two Energy Centers and support a Food

1 Service Training Center, which offer EE education and training  
2 programs for building professionals.

3 **b. Clean Transportation**

4 PG&E is dedicated to providing clean transportation programs and  
5 incentives that are affordable and easy to use. We support the state's  
6 goals of five million zero emission vehicles on the road by 2030,  
7 supported by 250,000 charging stations, including 10,000 fast chargers,  
8 and 200 hydrogen fueling stations statewide by 2025. The Utility's  
9 service area also leads the nation in EV adoption, allowing increasingly  
10 clean electricity to be used to help address pollution from California's  
11 largest source of emissions, the transportation sector. To further  
12 accelerate transportation electrification, the Utility is investing in  
13 programs that increase access to charging infrastructure needed to help  
14 its customers charge electric cars, trucks, and buses. In addition, the  
15 Utility offers (or is in the process of implementing) residential and  
16 commercial electric rates for charging EVs to ensure that the cost of  
17 electric fuel is cheaper than the fossil fuel alternative, especially when  
18 charged during off-peak periods. Electrifying the transportation sector  
19 can put downward pressure on electric rates to the benefit of all utility  
20 customers by spreading the costs of maintaining and hardening the  
21 electric grid over more sales of electricity, reducing the price per  
22 kilowatt-hour. An independent study estimated that electric vehicle  
23 customers in PG&E's service territory have already contributed \$350  
24 million in excess of associated costs, reducing rates and bills for other  
25 customers.<sup>1</sup>

26 PG&E's clean transportation programs are designed to increase  
27 adoption of clean vehicles in California and help the state meet its  
28 climate, air quality and clean transportation goals. Specifically:

- 29 • PG&E provides electric rates for charging at residential and  
30 commercial locations. These EV rates are designed to make

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<sup>1</sup> Synapse Energy Economics, Electric Vehicles Are Driving Rates Down, June 2019, available at: <https://www.synapse-energy.com/sites/default/files/EV-Impacts-June-2019-18-122.pdf>.

charging affordable and enable significant overall savings for EV drivers compared to gasoline.

- PG&E's 3-year EV Charge Network program calls for installing up to 7,500 Level 2 charging ports throughout our service area at multi-unit dwellings and workplaces. PG&E pays for the infrastructure to supply electricity to each EV parking space, and for a portion of the charging equipment. At least 15 percent of the units will be located in disadvantaged communities.
- PG&E's EV Fleet Program was created to expand PG&E's charging infrastructure programs to medium- and heavy-duty fleets. Our goal is to convert 700 sites to electric fleet vehicles by 2023 to support the adoption of 6,500 medium- and heavy-duty EVs. PG&E will dedicate 25 percent of the program budget to investments in disadvantaged communities.
- PG&E's EV Fast Charge Program aims to support the development of 50 public fast charging sites, with PG&E paying for and building the infrastructure from the electric grid to the charging equipment for public fast chargers, complementing state and privately funded initiatives. One quarter of the fast chargers will be located in disadvantaged communities.
- PG&E's Clean Fuel Rebate Program provides an \$800 rebate for EV owners, which will be converted to a statewide point-of-sale rebate in 2020, and provides on-bill credits for drivers of compressed natural gas vehicles.
- PG&E's Empower EV program targets outreach and EV education and provides rebates for EV chargers and installation for income-qualified residential customers.

**c. Other Customer Programs**

We also offer other customer programs to support clean energy and sustainability.

Our demand response programs enable customers to reduce energy use during periods of peak demand, so they can save or even earn money by adjusting their usage. By giving customers incentives to



1 curtail usage, demand response programs provide grid stability, reduce  
2 costs for customers and achieve GHG emissions reductions.

3 In addition to the support PG&E provides to its customers to install  
4 private rooftop solar capacity, we offer the Solar Choice and Regional  
5 Renewable Choice programs. These programs give customers the  
6 option to purchase 100 percent of their electricity from a universal solar  
7 program, without the need to install private rooftop solar panels.

8 **d. Supporting Communities**

9 PG&E is working to assist customers facing financial challenges,  
10 who live in disadvantaged communities or who face issues of  
11 environmental and social justice. For example, our aforementioned  
12 clean transportation efforts include specific benchmarks for investment  
13 in disadvantaged communities. We also are implementing electrification  
14 pilot programs in disadvantaged communities in the San Joaquin Valley.  
15 These programs are designed to replace propane and wood burning  
16 appliances with electric appliances or natural gas line extensions, and  
17 test an outreach and engagement strategy that utilizes local residents  
18 and community-based organizations.

19 PG&E's EE services also include a focus on low-income customers.  
20 For example, our Energy Savings Assistance Program offers energy-  
21 efficient home improvements at no cost to reduce energy bills and  
22 increase health, comfort and safety for income-qualified customers.

23 PG&E also offers a Disadvantaged Communities component of the  
24 Green Tariff Shared Renewables Program, which enables income-  
25 qualified residential customers residing in disadvantaged communities  
26 to benefit from utility scale clean energy and receive a 20 percent  
27 bill discount.

28 We also work to integrate environmental justice priorities into  
29 PG&E's business operations, guided by our Environmental Justice  
30 Policy (first adopted in 2001). A dedicated Tribal Liaison and  
31 Environmental and Social Justice Manager coordinate PG&E's efforts in  
32 this area.

33 PG&E also supports communities through the Better Together  
34 Giving Program, which provides contributions to charitable organizations



1 funded entirely by shareholders. Our charitable giving is designed to  
2 enrich educational opportunities, preserve the environment, promote  
3 emergency preparedness and support economic vitality. These  
4 community investments are focused on providing assistance to  
5 underserved communities, such as low-income individuals, communities  
6 of color, the long-term unemployed, women and girls, veterans, senior  
7 citizens, people with disabilities and members of the lesbian, gay,  
8 bisexual, transgender and queer community.

## 9 **5. PG&E Prioritizes Climate Resilience and Environmental Stewardship**

10 PG&E strives to serve as responsible stewards of the areas where the  
11 Company operates and to support climate resilience in our operations and in  
12 the communities we serve. We define climate resilience as the actions to be  
13 taken related to PG&E's assets, infrastructure, operations, employees and  
14 customers to mitigate against potential consequences and adapt to a  
15 changing climate and associated weather patterns.

16 We are working to design, influence and implement climate resilience  
17 programs and policies. For example, we are working to integrate the best  
18 available climate science into our asset planning and management. This  
19 includes developing tools for climate data visualization, performing research  
20 into different climate risks, and investing in mitigation of potential risks.

21 Additionally, we are partnering with utility peers and policymakers to  
22 advance energy sector climate resilience. We participate in the Governor's  
23 Office of Planning and Research's Integrated Climate Adaptation and  
24 Resilience Program and the Corporate Climate Resilience Council. We  
25 provide input into CEC climate resilience research priorities, and are an  
26 active participant in Commission efforts to establish guidance for utilities  
27 regarding adapting to climate change, such as the Commission's Climate  
28 Adaptation Order Instituting Rulemaking.

29 We also collaborate with customers and communities to enhance  
30 climate resilience in California. In 2019, we offered our third round of grants  
31 for the Better Together Resilient Communities grant program, a shareholder-  
32 funded initiative to support local climate resilience planning efforts.

1 I understand that the Community Wildfire Safety Program is discussed  
2 in more detail elsewhere in this testimony,<sup>2</sup> but the Program also is an  
3 example of PG&E's immediate implementation of strategies to further  
4 reduce wildfire risks and keep our customers and the communities we serve  
5 safe. The Program includes real-time monitoring and intelligence, enhanced  
6 safety measures, and system hardening and resilience.

7 Finally, as a land owner in California, PG&E takes special care to  
8 protect threatened and endangered species and their habitats. As part of  
9 our Land Conservation Commitment, we are permanently protecting more  
10 than 140,000 acres through the donations of fee title and conservation  
11 easements on watershed lands to public agencies and qualified  
12 conservation organizations.

13 **D. PG&E WILL MEET CALIFORNIA'S CLIMATE GOALS AND COMPLY WITH**  
14 **APPLICABLE PROCUREMENT REQUIREMENTS (M. WYSPIANSKI)**

15 In addition to PG&E's environmental leadership described above, we also  
16 have supported and will support implementation of California's ambitious climate  
17 policy framework, through full compliance with applicable statutory and  
18 regulatory requirements.

19 **1. RPS Goals**

20 California's RPS Program is a central component of the State's climate-  
21 related objectives. The program was established in 2002 by SB 1078 with  
22 the initial requirement that investor-owned utilities meet 20 percent of their  
23 retail sales with eligible renewable resources by 2017. Four years later, in  
24 2006, SB 107 accelerated the RPS mandate to 20 percent by 2010; and in  
25 2011, SB X1-2 established an additional RPS target of 33 percent by 2020.  
26 In 2015, the program was further accelerated by SB 350 which mandated a  
27 50 percent RPS by 2030. SB 350 includes interim annual RPS targets with  
28 3-year compliance periods and requires 65 percent of RPS procurement to  
29 be derived from long-term contracts of ten or more years starting in 2021. In  
30 2018, SB 100 was signed into law, which further increased RPS objectives  
31 to 60 percent by 2030 and requires all of the State's electricity sales to come  
32 from carbon-free resources by 2045.

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2 See Ch. 6, Wildfire Safety.

The Utility is on track to meet its 60 percent by 2030 RPS procurement mandate. In 2018, all electricity retail sellers had an annual target to serve at least 29 percent of their electric load with RPS-eligible resources. In 2018, we surpassed that target, delivering 38.9 percent of the Utility's bundled load from RPS-eligible resources (substantially exceeding the annual target of 29 percent).

The Utility has a long history of RPS compliance and has worked actively and successfully with the Commission to implement RPS requirements. We have filed and obtained Commission approval for annual RPS plans and have filed annual RPS Compliance Reports, which demonstrate our ample progress towards meeting RPS requirements. Our historic compliance with RPS standards for past compliance periods is reflected in the table below.

**TABLE 9-1  
COMPLIANCE WITH RPS STANDARDS**

Line No.	Year	Annual RPS Percentage	PG&E's RPS Percentage	Compliance Period	Compliance Period RPS Requirement	PG&E's Compliance Period RPS
1	2011	20%	19.6%	Compliance Period 1 (2011 – 2013)	20%	20.3%
2	2012	20%	19.0%			
3	2013	20%	22.5%			
4	2014	21.7%	27.0%	Compliance Period 2 (2014 – 2016)	23.3%	29.7%
5	2015	23.3%	29.5%			
6	2016	25%	32.8%			
7	2017	27%	33.0%	Compliance Period 3 (2017 – 2020)	30%	–
8	2018	29%	38.9%			
9	2019	31%	–			
10	2020	33%	–			

## 2. Clean Energy Power Mix

The Utility also has achieved a high percentage of deliveries from clean energy sources. In 2018, nearly 80 percent of the Utility's total electric power mix was from GHG-free sources including nuclear, large hydroelectric, and renewable sources of energy. The power mix delivered in 2018 included 34 percent non-emitting nuclear generation, 13 percent large

hydroelectric facilities, and 39 percent eligible renewable resources, such as wind, geothermal, biomass, solar, and small hydroelectric facilities.

Our commitment to clean power is shaped by California's public policy. Looking ahead, SB 100, which includes increased RPS objectives and clean energy goals, is still being implemented by the Commission, CEC, and CARB. PG&E plans to meet any mandates that result from the implementation of the 100 percent clean energy target for 2045 per SB 100. Additionally, Executive Order B-55-18 sets a statewide goal to achieve carbon neutrality by 2045. We anticipate that we will be an active participant in future efforts in the Legislature to codify the carbon neutrality goal and in proceedings at the Commission, the CEC, and the CARB to determine how to achieve carbon neutrality. We plan to meet any mandates that implement the State's plan for carbon neutrality.

### **3. Other Procurement Requirements**

*Integrated Resource Planning.* SB 350, passed by the Legislature in 2015 and codified as Pub. Util. Code §§ 454.51 and 454.52, established 2030 targets for EE and RPS. SB 350 also required the Commission to establish an IRP process to ensure that load serving entities in the State shape their future energy portfolios to meet California's clean energy goals in a reliable and cost-effective manner. We are actively working with the Commission to implement the IRP requirements to meet the State's GHG reduction targets. As of PG&E's approved 2018 IRP, PG&E can meet its 2030 GHG planning target with its existing GHG-free resource portfolio and resources added to comply with existing mandates. We also will comply with incremental procurement requirements that are set forth in the IRP proceedings.

*Other Procurement Requirements.* We administer a variety of other climate-related procurement requirements authorized by statute and by Commission decisions and resolutions, as illustrated in the following examples:

- **Bioenergy Market Adjusting Tariff:** We comply with requirements to procure from bioenergy facilities in three categories: biogas from wastewater, municipal waste, food processing, or codigestion; biomass

1 or biogas from dairy or agriculture; and biogas or biomass using  
2 sustainable forest management;

- 3 • Bioenergy Renewable Auction Mechanism: We comply with  
4 requirements to procure from bioenergy facilities, including those using  
5 High Hazard Zone fuel;
- 6 • Green Tariff Shared Renewables (GTSR): We procure energy  
7 consistent with the requirements under the GTSR program, which gives  
8 customers the option to meet their electrical needs with generation from  
9 renewable energy resources; and
- 10 • Solar Generation in Disadvantaged Communities: We will procure solar  
11 resources consistent with the requirements under these programs, which  
12 are designed to increase access to and adoption of renewable  
13 generation in disadvantaged communities.

14 *Collaboration on Procurement Issues.* In general, we actively and  
15 productively engage with the State, regulators, and stakeholders on  
16 procurement issues. We have actively participated in proceedings to  
17 implement the procurement-related initiatives outlined above. As a further  
18 example, PG&E regularly presents information regarding its procurement  
19 activities to the Procurement Review Group (PRG). The PRG consists of  
20 representatives from the Commission's Energy Division and the Public  
21 Advocates Office; the Coalition of California Utility Employees; Coast  
22 Economic Consulting; The Utility Reform Network (TURN); the Union of  
23 Concerned Scientists; and Woodruff Expert Services (representing TURN).  
24 Generally, PG&E staff presents a quarterly update to the PRG on its RPS  
25 and GHG positions, and presents information to the PRG regarding  
26 solicitations and other procurement-related updates.

#### 27 **4. RPS Sales**

28 The Utility has a surplus of renewable energy and associated RECs.  
29 Accordingly, and consistent with past practice, the Utility is selling surplus  
30 renewable energy and credits in a manner that is consistent with meeting its  
31 own requirements and providing benefits to customers.

32 Since 2013, the Utility has sold volumes of bundled RPS energy and  
33 RECs on a short-term (five years or less) basis through solicitations that are  
34 consistent with our annual RPS Plan Sales Framework approved by the

Commission. Beginning in November 2019, the Utility issued a solicitation to also sell long-term (ten year) surplus RPS volumes.

## **5. The Plan of Reorganization Is Consistent With the State's RPS and Procurement Objectives**

We have a strong track record of compliance and partnership with the Commission and the State on climate and procurement mandates. A reorganized PG&E will continue in this stead and will comply with any future climate or procurement mandates issued by the Commission or by the Legislature. Through the Chapter 11 process, PG&E continues to support California's clean energy leadership, consistent with our long history of helping California pursue ambitious climate goals. The Plan puts PG&E on track to emerge from bankruptcy as a financially sound enterprise, so that PG&E will be in a position to continue to support California's clean energy future.

PG&E's Plan also provides that the Utility will assume all power purchase agreements, renewable energy power purchase agreements, and Community Choice Aggregation servicing agreements. Although these power purchase agreements were entered into at market prices available at that time, many of the early contracts are at rates well-above currently available renewable resources. The Utility entered into these contracts in order to meet State renewable energy procurement requirements, and in doing so, facilitated the growth of the renewable industry and a subsequent drop in prices of renewable energy that has benefited the State as a whole. The Utility's power purchase agreements include substantial commitments to clean energy development well into the future. Accordingly, PG&E's assumption of all power purchase agreements will continue our long-term commitment to providing energy from renewable sources, in furtherance of achieving the State's climate goals.

**PACIFIC GAS AND ELECTRIC COMPANY**  
**CHAPTER 10**  
**RATES AND RATE NEUTRALITY**  
**(SCOPING MEMO ISSUES 4.1, 4.4, 4.5)**

PACIFIC GAS AND ELECTRIC COMPANY  
CHAPTER 10  
RATES AND RATE NEUTRALITY  
(SCOPING MEMO ISSUES 4.1, 4.4, 4.5)

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**PACIFIC GAS AND ELECTRIC COMPANY**  
**CHAPTER 10**  
**RATES AND RATE NEUTRALITY**  
**(SCOPING MEMO ISSUES 4.1, 4.4, 4.5)**

**A. Executive Summary**

The purpose of this chapter is to discuss the rate impacts of PG&E's Plan of Reorganization (the "PG&E Plan" or "PG&E's Plan"). In particular, this chapter addresses rate impacts, compliance with the neutrality requirement of Assembly Bill 1054 ("AB 1054"), and compliance with the customer contributions requirement of AB 1054.

The PG&E Plan complies with the AB 1054 requirement that a plan of reorganization be "neutral, on average, to the ratepayers," because the PG&E Plan does not cause customers to pay more on average than they would in the absence of PG&E's reorganization under the Plan. Indeed, the PG&E Plan generates cost savings that will benefit ratepayers.

**B. Introduction**

My name is Robert S. Kenney. I am Vice President, State and Regulatory Affairs for Pacific Gas and Electric Company (the Utility). In this role, I am responsible for executive management and strategic guidance of PG&E's California External Affairs, including state and local governmental affairs and community relations, including overseeing the PG&E Foundation and PG&E's charitable and political giving. I am also responsible for executive management and strategic guidance of all aspects of PG&E's interactions with the California Public Utilities Commission (Commission), the Federal Energy Regulatory Commission, the California Energy Commission, and other state agencies, including all regulatory filings and proceedings. I have been with PG&E since 2015 and have held roles with increasing levels of responsibility and leadership.

Prior to joining PG&E, I was Chairman of the Missouri Public Service Commission, where I presided over proceedings deciding, among other things, rate increases, mergers and acquisitions, transmission siting, resource adequacy, and implementation of Missouri's Renewable Energy Standard and Energy Efficiency Investment Act. I also served on the Board of Directors of the National Association of Regulatory Utility Commissioners. I hold a bachelor's

1 degree in political science from Hampton University and a law degree from Saint  
2 Louis University School of Law.

### 3 **C. Rate Impacts**

4 The PG&E Plan will result in a reduction in customer rates, relative to the  
5 rates that would have been in effect absent PG&E's reorganization under the  
6 PG&E Plan, because its provisions will result in a substantial reduction in the  
7 cost of debt. In accordance with the restructuring support agreement between  
8 PG&E and holders of senior unsecured debt issued by PG&E, PG&E will  
9 refinance a portion of its prepetition debt, at lower interest rates, and the Plan  
10 therefore will yield approximately \$1 billion in savings associated with lower  
11 interest expenses on long-term debt, as discussed in the testimony of Mr. Jason  
12 Wells in Chapter 2.

13 In addition, PG&E has committed not to recover certain wildfire-related costs  
14 as provided in the 2017/2018 Wildfire Order Instituting Investigation (OII)  
15 settlement. As background, on June 27, 2019, the Commission issued an OII to  
16 determine whether the Utility violated any provisions of the Public Utilities Code,  
17 Commission General Orders, or decisions, or other applicable rules or  
18 requirements pertaining to the maintenance and operation of its electric facilities  
19 that were involved in igniting fires in its service territory in 2017. The proceeding  
20 was subsequently expanded to include the 2018 Camp Fire. PG&E, the Safety  
21 and Enforcement Division of the Commission, the Office of the Safety Advocate,  
22 and the Coalition of California Utility Employees eventually reached a settlement  
23 and filed a motion for approval of a settlement of the OII on December 17, 2019,  
24 which is pending. As part of the settlement, PG&E agrees not to seek recovery  
25 of \$1.625 billion of wildfire-related costs and to spend \$50 million in shareholder-  
26 provided funds to undertake 20 System Enhancement Initiatives.<sup>1</sup> If the  
27 Commission approves the settlement, that provision of the settlement will be  
28 incorporated into PG&E's Plan.

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1 See Joint Motion of Pacific Gas & Electric Company, SED, OSA, and CUE for Approval  
of Settlement Agreement (Dec. 17, 2019), Exh. 1, Settlement Agreement Between  
PG&E, SED, CCUE, and Office of the Safety Advocate Resolving OII I.19-06-015, p. 3.

1 **D. Rate Neutrality**

2 AB 1054 sets the following condition for PG&E participation in the wildfire  
3 fund: “The commission has determined that the reorganization plan and other  
4 documents resolving the insolvency proceeding are . . . neutral, on average, to  
5 the ratepayers of the electrical corporation.” Pub. Util. Code § 3292(d)(1)(D).  
6 The Plan of Reorganization is neutral, on average, to ratepayers, if the Plan by  
7 its terms does not require ratepayers on average to pay more in rates than they  
8 would in the absence of PG&E’s reorganization under the terms of PG&E’s Plan.  
9 For example, changes in rates that result from costs that PG&E would have had  
10 to incur to improve the safety of its system, regardless of whether or not PG&E  
11 emerged from Chapter 11 pursuant to PG&E’s Plan, are independent of the  
12 Plan; such costs do not prevent the plan from being neutral to customers,  
13 because PG&E would have had to incur those costs regardless of Chapter 11.  
14 Moreover, changes in rates that occur as a result of Commission decisions in  
15 proceedings such as the cost of capital and General Rate Cases (GRC) are not  
16 relevant to Section 3292(d)(1)(D) because they are not rate changes resulting  
17 from the Plan. Likewise, changes in rates that occur as a result of other  
18 Commission decisions after PG&E’s emergence from bankruptcy, and  
19 independent of the Plan, including prudence review, are not relevant to  
20 Section 3292(d)(1)(D) because they are not rate changes resulting from the  
21 Plan.

22 PG&E’s Plan meets the neutrality requirement. The costs recovered from  
23 customers that result from activities described in the Plan are not a departure  
24 from the baseline absent Chapter 11. PG&E would have had to incur these  
25 costs to operate and in some cases to improve the safety of its system  
26 regardless of Chapter 11. In fact, PG&E’s Plan substantially reduces the costs  
27 potentially borne by ratepayers, through cost savings obtained through the  
28 refinancing of debt at lower interest rates under the terms of the PG&E Plan, as  
29 noted above and as described in detail in Mr. Wells’ testimony in Chapter 2.

30 **E. Customer Contributions**

31 AB 1054 also sets the following condition: “The commission has determined  
32 that the reorganization plan and other documents resolving the insolvency  
33 proceeding recognize the contributions of ratepayers, if any, and compensate  
34 them accordingly through mechanisms approved by the commission, which may

1 include sharing of value appreciation.” Pub. Util. Code § 3292(d)(1)(E). The  
2 Plan of Reorganization meets this requirement if the Plan does not require  
3 contributions from customers beyond the baseline of what would have been  
4 required absent Chapter 11, or if any contributions from customers are  
5 compensated or offset appropriately.

6 PG&E’s Plan meets the “customer contribution” requirement. As described  
7 above, the Plan is neutral because it does not require contributions from  
8 ratepayers beyond the baseline of what would have been required absent  
9 Chapter 11. Accordingly, there are no “contributions of ratepayers” that fall  
10 within the scope of subparagraph 3292(d)(1)(E); therefore, no compensation is  
11 needed.

## 12 **F. Earnings Adjustment Mechanism**

13 PG&E has considered implementing with the Commission a potential  
14 earnings adjustment mechanism linked to safety performance, but determined  
15 that it would be unwise to include such a mechanism in PG&E’s Plan. PG&E  
16 proposed a safety-based earnings adjustment mechanism in its testimony in  
17 PG&E’s 2020 GRC.<sup>2</sup> However, such a mechanism has the potential to increase  
18 financial risk, to the long-term detriment of ratepayers and the company, and  
19 could be destabilizing at precisely the time when the company is under the most  
20 stress (i.e., when it experiences a catastrophic event). Thus, there is substantial  
21 potential for unintended consequences and any such mechanism needs to be  
22 carefully evaluated and calibrated. In addition, a management incentive  
23 compensation structure with significant safety metrics is a more direct approach  
24 to incentivizing safety efforts, without as much downside risk. PG&E recognizes  
25 that the Commission can continue to evaluate potential safety-based earnings  
26 adjustment mechanisms post-emergence, but such a mechanism should not be  
27 built into PG&E’s Plan.

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2 See Test Year 2020 General Rate Case Application of Pacific Gas and Electric Company (U 39 M), A.18-12-009, Ex. 12, Ch. 14 (Dec. 13, 2018).

**PACIFIC GAS AND ELECTRIC COMPANY**  
**CHAPTER 11**  
**FINES AND PENALTIES (SCOPING MEMO 4.2)**

PACIFIC GAS AND ELECTRIC COMPANY  
CHAPTER 11  
FINES AND PENALTIES (SCOPING MEMO 4.2)

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**PACIFIC GAS AND ELECTRIC COMPANY**  
**CHAPTER 11**  
**FINES AND PENALTIES (SCOPING MEMO 4.2)**

**A. Executive Summary**

The Commission has directed the parties to address whether a proposed plan of reorganization provides satisfactory resolution of claims for monetary fines or penalties for Pacific Gas and Electric Company's (PG&E) prepetition conduct.

Settlements in other Commission proceedings, some of which are currently pending Commission approval, satisfactorily resolve the claims for monetary fines or penalties for prepetition conduct.

PG&E's reorganization includes Bankruptcy Court<sup>1</sup> approval of PG&E's entry into those settlements, and those settlements will satisfy the related PG&E Plan conditions for emergence.

**B. Introduction**

My name is Robert S. Kenney. I am Vice President, State and Regulatory Affairs for PG&E. My industry experience is summarized in my testimony in Chapter 10.

My testimony in this chapter describes the PG&E Plan provisions relating to claims for fines and penalties for PG&E pre-petition conduct, and the anticipated resolution of those claims through settlements approved or to be approved by the Commission and the Bankruptcy Court. As a result of those PG&E Plan provisions and the anticipated approvals, the PG&E Plan will satisfactorily resolve those claims.

**C. PG&E's Plan Provides For Resolution of Claims**

PG&E's proposed plan of reorganization (PG&E Plan or PG&E's Plan) contains a "CPUC Approval" condition precedent to PG&E's Plan taking effect.<sup>2</sup> The Plan defines CPUC Approval to mean "all necessary approvals,

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<sup>1</sup> The "Bankruptcy Court" refers to the court presiding over the bankruptcy of PG&E Corporation and PG&E, in *In re: PG&E Corp.*, United States District Court, N.D.Ca., No. 19-30088.

<sup>2</sup> See Debtors' and Shareholder Proponents' Joint Ch. 11 Plan of Reorg. Dated Jan. 31, 2020, *In re: PG&E Corp.*, No. 19-30088, (Jan. 31, 2020).

1 authorizations and final orders from the CPUC to implement the Plan, and to  
2 participate in the Go-Forward Wildfire Fund,” including, among other things,  
3 “satisfactory resolution of claims for monetary fines or penalties under the  
4 California Public Utilities Code (Pub. Util. Code) for prepetition conduct.”<sup>3</sup>

5 Except as otherwise expressly provided, confirmation of the PG&E Plan  
6 would discharge PG&E’s pre-petition obligations pursuant to Section 1141 of the  
7 Bankruptcy Code.<sup>4</sup>

8 Potential claims under the California Pub. Util. Code for monetary fines or  
9 penalties for prepetition conduct are encompassed within several other CPUC  
10 proceedings: Disconnection Order Instituting Investigation (OII) (I.18-07-008),  
11 the Ex Parte OII (I.15-11-015), the Locate and Mark (L&M) OII (I.18-12-007),  
12 and the 2017-2018 Wildfire OII (I.19-06-015). As discussed below, the CPUC  
13 has adopted settlement agreements in I.18-07-008 and I.15-11-015, and the  
14 CPUC currently is considering motions to approve settlement agreements in  
15 I.18-12-007 and I.19-06-015, which would resolve the claims for potential  
16 monetary fines or penalties for prepetition conduct. In conjunction with or prior  
17 to Bankruptcy Court approval of PG&E’s Plan, PG&E will seek Bankruptcy Court  
18 approval of its entry into those settlements.

#### 19 **D. Resolution of Fines and Penalties For Prepetition Conduct**

20 PG&E’s Plan provides satisfactory resolution of claims for monetary fines or  
21 penalties for PG&E’s pre-petition conduct, because: (1) PG&E has reached  
22 settlement agreements that the Commission either has found, or it is anticipated  
23 will find, to fairly resolve such claims, (2) those settlements will satisfy the CPUC  
24 Approval condition in PG&E’s Plan regarding fines and penalties; and (3) the  
25 Bankruptcy Court will approve those settlements prior to or in connection with  
26 confirmation of PG&E’s Plan.

##### 27 2017/2018 Wildfire OII (I.19-06-015)

28 The CPUC issued this OII to investigate the role of PG&E’s electric facilities  
29 in the ignition of fires in its service territory in 2017 and 2018. The CPUC  
30 currently is considering a motion for approval of a comprehensive settlement  
31 agreement between PG&E, the Safety and Enforcement Division (SED) of the

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3 *Id.* § 1.37(c).

4 *Id.* § 10.3.



1 CPUC, the Coalition of California Utility Employees, and the Office of the Safety  
2 Advocate.<sup>5</sup>

3 Under the settlement, in resolution of the potential claims, PG&E agrees to  
4 not seek rate recovery of \$1.625 billion in wildfire-related expenditures and to  
5 spend \$50 million in shareholder-provided settlement funds on 20 specified  
6 System Enhancement Initiatives relating to the company's electric transmission  
7 and distribution system.

8 For the reasons discussed in PG&E's joint motion for approval of the  
9 settlement in I.19-06-015, the settlement fairly and reasonably resolves the  
10 claims, and if the Commission grants the motion for approval, the Commission  
11 will have found the settlement to fairly and reasonably resolve the claims. That  
12 settlement will constitute a satisfactory resolution of those claims within the  
13 meaning of the CPUC Approval provision of PG&E's Plan. Following  
14 Commission approval of the settlement, PG&E will file a motion with the  
15 Bankruptcy Court seeking Bankruptcy Court approval of the settlement.

16 Locate and Mark Practices OII (I.18-12-007)

17 The CPUC issued this OII to investigate whether PG&E's damage  
18 prevention and L&M programs and practices for its natural gas system were  
19 unsafe and in violation of any provision of the Public Utilities Code, Government  
20 Code, Commission general orders or decisions, and other state or federal laws,  
21 applicable rules or requirements.

22 PG&E, the SED of the CPUC, and the Coalition of California Utility  
23 Employees reached a resolution of the OII and jointly moved for the CPUC to  
24 approve the proposed settlement agreement.<sup>6</sup> Under the settlement, in  
25 resolution of the potential claims, PG&E agrees to make payments and incur a  
26 penalty at shareholder expense. For the significant majority of this financial  
27 outcome, PG&E must undertake a series of System Enhancement Initiatives  
28 designed to enhance, among other things, PG&E's L&M compliance and

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5 I.19-06-015, *Joint Motion of Pacific Gas and Electric Company (U 39 E), the Safety and Enforcement Division of the California Public Utilities Commission, Coalition of California Utility Employees, and the Office of the Safety Advocate for Approval of Settlement Agreement*, filed December 17, 2019.

6 I.18-12-007, *Joint Motion of Pacific Gas and Electric Company (U 39 E), the Coalition of California Utility Employees, and Safety and Enforcement Division for Approval of Settlement Agreement*, filed October 3, 2019.

1 capabilities and the reliability of the ticket management information that PG&E  
2 maintains in the ordinary course of its business.

3 For the reasons discussed in PG&E's joint motion for approval of the  
4 settlement in I.18-12-007, the settlement is a fair and reasonable resolution of  
5 the claims, and if the Commission approves the settlement, the Commission will  
6 have found the settlement to fairly and reasonably resolve the claims. That  
7 settlement will constitute a satisfactory resolution of those claims within the  
8 meaning of the CPUC Approval provision of PG&E's Plan. Following  
9 Commission approval of the settlement, PG&E will file a motion with the  
10 Bankruptcy Court seeking Bankruptcy Court approval of the settlement.

11 On January 17, 2020, Administrative Law Judge Allen issued a Presiding  
12 Officer's Decision approving and modifying the settlement. The decision, if  
13 adopted by the Commission, would approve the settlement, which remains  
14 subject to bankruptcy court approval, but would increase the financial penalty  
15 paid by PG&E from \$65 million to \$110 million.

16 Ex Parte OII (I.15-11-015)

17 The CPUC issued this OII to investigate eight proceedings in which PG&E  
18 failed to timely report *ex parte* communications and engaged in improper *ex*  
19 *parte* communications.

20 On May 3, 2018, the CPUC adopted (as modified) a settlement agreement  
21 between PG&E, the City of San Bruno, the City of San Carlos, the Public  
22 Advocates Office at the California Public Utilities Commission (Cal Advocates),  
23 the SED of the CPUC, and The Utility Reform Network (TURN) that resolved  
24 Phase I of the OII.<sup>7</sup> Under the settlement, PG&E agreed to penalties and  
25 forbearances totaling \$97.5 million, as well as certain non-financial penalties,  
26 such as providing training on the Commission's *ex parte* rules and providing  
27 notice to the Cal Advocates, SED, and TURN of certain communications.

28 In Phase II, on June 28, 2019, the CPUC adopted a settlement agreement  
29 between PG&E, the City of San Bruno, the City of San Carlos, the  
30 Cal Advocates, the SED, and TURN that resolved Phase II of the OII.<sup>8</sup> Under

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7 Decision (D.) 18-04-014.

8 D.19-12-013, at 26 (approving settlement and finding the "Phase II Settlement Agreement is reasonable in light of the record, is consistent with law, and is in the public interest").

1 the settlement, PG&E agreed to a total financial penalty of \$10 million, to an  
2 extension of the time period for the applicability of the non-financial remedies  
3 agreed to in Phase I, and to new non-financial remedies, such as a prohibition  
4 on contracting outside parties for Advocacy Work before the Commission  
5 through 2025.

6 Thus, the Commission has found the settlement fairly and reasonably  
7 resolves the claims.<sup>9</sup> That settlement constitutes a satisfactory resolution of  
8 those claims within the meaning of the CPUC Approval provision of PG&E's  
9 Plan. Prior to or in conjunction with seeking Bankruptcy Court approval of the  
10 PG&E Plan, PG&E will file a motion with the Bankruptcy Court seeking  
11 Bankruptcy Court approval of these settlements.

12 Disconnection OII (I.18-07-008)

13 The CPUC scoped this OII to investigate PG&E's self-reported violations in  
14 connection with its inadvertent failure to provide the 24-hour notice required in its  
15 Electric Rule No.8 A.2 Tariff prior to residential service disconnections between  
16 July 1, 2016 and July 18, 2016 and its disconnection, in error, of certain  
17 customers on October 20, 2018.

18 On September 18, 2019, the CPUC adopted a settlement agreement  
19 between PG&E and the Consumer Protection and Enforcement Division of the  
20 CPUC.<sup>10</sup>

21 Under the settlement, in resolution of the potential claims, PG&E agreed to  
22 provide a bill credit of \$100 to each of the 6,371 affected customer accounts that  
23 had not already received such a credit (totaling \$637,100) and to contribute  
24 \$637,100 to the Relief for Energy Assistance through Community Help Program,  
25 each at shareholder expense.

26 Thus, the Commission has found the settlement fairly and reasonably  
27 resolves the claims.<sup>11</sup> That settlement constitutes a satisfactory resolution of  
28 those claims within the meaning of the CPUC Approval provision of PG&E's

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9 *Id.*

10 D.19-09-037.

11 *Id.*

1 Plan. On December 5, 2019, the Bankruptcy Court granted PG&E's motion for  
2 approval of these settlements.<sup>12</sup>

3 Conclusion

4 PG&E hereby affirms that Commission approval of the above-referenced  
5 settlements as submitted satisfies the CPUC Approval condition of the PG&E  
6 Plan relating to satisfactory resolution of prepetition claims for monetary fines  
7 and penalties.

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<sup>12</sup> Order, *In re: PG&E Corp.*, No. 19-30088, Dkt. No. 5002 (Dec. 5, 2019).

**PACIFIC GAS AND ELECTRIC COMPANY**  
**CHAPTER 12**  
**SECTION 854**  
**(SCOPING MEMO ISSUES 3.4, 4.6)**

PACIFIC GAS AND ELECTRIC COMPANY  
CHAPTER 12  
SECTION 854  
(SCOPING MEMO ISSUES 3.4, 4.6)

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**PACIFIC GAS AND ELECTRIC COMPANY**  
**CHAPTER 12**  
**SECTION 854**  
**(SCOPING MEMO ISSUES 3.4, 4.6)**

**A. Introduction**

My name is Robert S. Kenney. I am Vice President, State and Regulatory Affairs for Pacific Gas and Electric Company (the Utility, and, together with PG&E Corporation, PG&E). My industry experience is summarized in my testimony in Chapter 10.

I understand that the Administrative Law Judge's Ruling on Public Utilities Code (Pub. Util. Code) Section 854, dated November 27, 2019, ruled that the California Public Utilities Commission (Commission) will review PG&E's Plan of Reorganization (PG&E's Plan) with reference to, among other things, certain criteria from Pub. Util. Code Section 854. These criteria are whether the plan will: "maintain or improve the financial condition of the resulting public utility doing business in the state"; "maintain or improve the quality of service to public utility ratepayers in the state"; "maintain or improve the quality of management of the resulting public utility doing business in the state"; "be fair and reasonable to affected public utility employees, including both union and nonunion employees"; and "be beneficial on an overall basis to state and local economies, and to the communities in the area served by the resulting public utility." My testimony in this chapter is designed to assist the Commission as it evaluates PG&E's Plan in light of those criteria.

The testimony that follows references several other witnesses' testimony relating to these issues. For clarity and to avoid duplication, my testimony in this chapter refers briefly to the portions of those witnesses' testimony related to each of the issues above.

**B. Financial Condition of the Utility**

- Given that PG&E is currently in Chapter 11 proceedings, its successful emergence from Chapter 11 pursuant to a Plan that will need to have its financial feasibility approved by the Bankruptcy Court will undoubtedly improve PG&E's financial condition.

- 1 • As described in the testimony of Mr. Jason Wells in Chapter 2, PG&E will be  
2 able to raise the necessary debt and equity to exit Chapter 11. In  
3 accordance with a settlement agreement with holders of senior unsecured  
4 notes issued by the Utility (the “Noteholders”), the Utility will reinstate certain  
5 bonds held by the Noteholders and refinance certain higher coupon bonds  
6 at agreed rates. PG&E’s Plan also contemplates the issuance of new long-  
7 term debt by the Utility. In addition, PG&E’s Plan contemplates an equity  
8 issuance. PG&E has already secured substantial “backstop” commitments  
9 for equity in the reorganized company, which provide certainty that sufficient  
10 equity will be available for emergence.
- 11 • Moreover, as described in Mr. Wells’ testimony and the testimony of Mr.  
12 John Plaster in Chapter 3, PG&E’s Plan positions the Utility and PG&E  
13 Corporation to be financially healthy upon emergence, including because:
  - 14 – The Utility expects to achieve investment grade credit ratings for  
15 secured debt upon emergence, and continue to improve its credit ratings  
16 over time through its constructive implementation of the Assembly Bill  
17 (AB) 1054 regulatory environment and its participation in the Wildfire  
18 Fund; and
  - 19 – PG&E should have ongoing access to equity markets following  
20 emergence, particularly in light of substantial investor demand for equity  
21 in utilities, improvements to PG&E’s credit rating following emergence,  
22 greater certainty regarding the AB 1054 regulatory environment, and  
23 PG&E’s eventual re-establishment of a dividend.

### 24 **C. Quality of Service to Ratepayers**

25 The Utility’s ongoing efforts to improve its ability to provide safe and reliable  
26 service at affordable rates will continue upon emergence from Chapter 11,  
27 improving service to ratepayers.

- 28 • As described in the testimony of Mr. Andrew Vesey in Chapter 5, the Utility  
29 has recently made great strides toward improving the safety and reliability of  
30 its service to ratepayers, which will continue upon its emergence from  
31 Chapter 11:
  - 32 – The Utility has undertaken numerous ongoing initiatives to improve the  
33 safety of its service deliveries;



- The Utility has further empowered its safety leadership, including its Chief Risk Officer and Chief Safety Officer;
  - The Utility is focused on increasing the reliability of its service, in part by decreasing the incidence of Public Safety Power Shutoffs;
  - The Utility, and particularly its Chief Customer Officer, is also focused on enhancing the voice of its customers and increasing customer satisfaction; and
  - The Utility is actively exploring ways to develop a regional focus in its operations, which will better address the specific concerns and needs of local communities and is designed to improve the safety and reliability of service within each region.
- These improvements to PG&E's service to its customers will inure to the benefit of PG&E's valued small business customers. PG&E's current management has experience providing quality service to small businesses. Upon its emergence from Chapter 11, PG&E intends to maintain its Small and Medium Business class of programs and continue its outreach to small businesses.
  - As described in the testimony of Mr. Wells in Chapter 2, PG&E will emerge from Chapter 11 as a financially healthy utility, which will, in turn, enhance its ability to raise capital at lower rates for the benefit of its customers, and allow the Utility to continue and augment the ongoing substantial efforts to improve the safety and reliability of its services.
  - As noted above with reference to Mr. Wells' testimony, PG&E's Plan involves refinancing a portion of the Utility's existing debt; this refinancing will result in lower interest rates for that debt, generating savings for the benefit of ratepayers. Thus, PG&E's Plan will enable the Utility to provide ratepayers with improved quality of service at more affordable rates.

#### **D. Quality of Management**

The Utility's substantial changes to its senior management team and enhancement of its governance will lead to an improved quality of management.

- As described in Mr. Vesey's testimony, PG&E has recently made a number of key changes in its senior executives and management, which have brought a wealth of outside experience and expertise to the Utility and have focused particularly on empowering leaders in safety.

- As described in the testimony of Ms. Nora Mead Brownell in Chapter 4, PG&E's refreshed Boards engage in robust oversight of and regular interaction with management, particularly with regard to safety, risk, and compliance, which ensures that PG&E's management is accountable for maintaining and enhancing the Utility's safety performance and service to ratepayers.

#### **E. Fairness to Employees**

PG&E's reaffirmance of its existing commitments to its employees, its continuing efforts to improve occupational safety, and its compliance with applicable worker protections will ensure that its employees are treated fairly upon PG&E's emergence from Chapter 11.

- As described in the testimony of Mr. William Johnson in Chapter 1, PG&E's Plan expressly provides that the Utility will assume various existing agreements with union and non-union employees, including collective bargaining agreements and the employee benefit plans governing employees. In addition, as Mr. Johnson notes, PG&E has agreed with the International Brotherhood of Electrical Workers (IBEW) to extend and enhance the IBEW collective bargaining agreements for the benefit of those employees, as well as the overall enterprise.
- As described in Mr. Vesey's testimony, the Utility continues to implement and refine its One PG&E Occupational Health and Safety 5-Year Plan, which is designed to improve occupational safety and health performance and culture by using data analytics to drive targeted improvements in the Utility's systems, processes, and communications.
- I understand that Pub. Util. Code Section 854.2 establishes worker protections that apply during a 180-day transition period following PG&E's bankruptcy filing and the three years thereafter; these protections ensure that workers' wages and hours are maintained, as is the total number of qualified employees, consistent with collective bargaining agreements and the Commission's orders. PG&E will fully comply with the requirements of this section.

1 **F. Benefits to State and Local Economies and Local Communities**

2 The Utility's emergence from Chapter 11 as a financially healthy utility  
3 committed to continued improvements to the safety, reliability, and affordability  
4 of its service will benefit the communities it serves and the state as a whole.

- 5 • As described in Mr. Vesey's testimony, the Utility is intensely focused on  
6 improving the reliability of its service, which will substantially benefit the  
7 state and local economies that rely on access to energy.
- 8 • The savings from the refinancing of debt in PG&E's Plan, discussed above  
9 and in Mr. Wells' testimony, will also benefit state and local economies in the  
10 form of lower rates for PG&E's customers.
- 11 • As also discussed in Mr. Wells' testimony, PG&E will emerge from  
12 Chapter 11 as a financially healthy utility under PG&E's Plan, which will  
13 enable it to be a strong partner to the state in confronting the challenges of  
14 climate change and the increasing threat of wildfires.
- 15 • PG&E's extensive efforts to improve its safety performance, as described in  
16 the testimony of Mr. Vesey, and its particular focus on wildfire safety, as  
17 described in the testimony in Chapter 6, will increase the safety of the  
18 communities within the area that the Utility serves, including those  
19 communities that have suffered from devastating wildfires in recent years.
- 20 • PG&E's reaffirmance of its commitments to its employees—who are also  
21 members of the communities that the Utility serves—will help minimize  
22 disruption to communities as PG&E emerges from Chapter 11.
- 23 • PG&E contributes significant amounts in the form of property taxes and  
24 franchise fees to the counties and cities where PG&E owns and operates  
25 gas and electric infrastructure. For example, in 2019, PG&E paid more than  
26 \$388 million to 50 counties and 247 cities; this total was \$21 million greater  
27 than payments in the prior year, an increase that was driven by PG&E's  
28 substantial investments in infrastructure to promote safety and reliability.  
29 PG&E's Plan, under which PG&E will be able to emerge from Chapter 11  
30 and to continue to make such investments, will therefore facilitate this  
31 important contribution to cities and counties, which drives local economies  
32 and supports essential services.
- 33 • PG&E and the PG&E Corporation Foundation make charitable contributions,  
34 funded entirely by shareholders, which benefit the communities that PG&E

1 serves, with a particular focus on underserved communities. In 2018, PG&E  
2 and the PG&E Corporation Foundation supported \$27.8 million in  
3 contributions to charitable organizations. Of that total amount, 31% was  
4 directed toward the area of economic and community vitality, which includes  
5 investments in job creation and career training opportunities, support for  
6 local businesses, and energy assistance to low-income families to improve  
7 quality of life.

- 8 • PG&E also supports community development by prioritizing the inclusion of  
9 diverse business enterprises – small businesses and businesses owned by  
10 women, minorities, service-disabled veterans and LGBTQ individuals – in its  
11 supply chain. PG&E offers workshops, trainings, technical assistance, and  
12 educational scholarships to suppliers; collaborates with community  
13 organizations; and encourages its major suppliers to further diversity in  
14 subcontracting. These efforts have delivered results: in 2018, PG&E spent  
15 \$2.98 billion with diverse suppliers, representing 41.43 percent of its total  
16 procurement expenditures. This was the 13th consecutive year that the  
17 Utility exceeded the Commission’s goal of 21.5 percent.